

Effect of Prime Healthcare Services' Acquisition of Paradise  
Valley Hospital on the Accessibility and Availability of  
Healthcare Services

**Prepared for the Office of the  
California Attorney General**

January 12, 2007

*Prepared by:*



2301 Rosecrans Avenue, Suite 3180; El Segundo, CA 90245  
Tel. 310 531-8228; Fax 310 531-8232

## TABLE OF CONTENTS

<b>INTRODUCTION AND PURPOSE .....</b>	<b>2</b>
<b>BACKGROUND AND DESCRIPTION OF THE TRANSACTION.....</b>	<b>3</b>
<b>PARADISE VALLEY HOSPITAL'S PROFILE .....</b>	<b>5</b>
GENERAL INFORMATION.....	5
PROGRAMS AND SERVICES .....	7
SEISMIC, CERTIFICATION AND ACCREDITATION ISSUES .....	8
PATIENT VOLUME.....	9
MEDICAL STAFF .....	12
FINANCIAL PROFILE.....	13
COST OF SERVICES .....	14
CHARITY CARE.....	15
COMMUNITY BENEFIT SERVICES .....	18
PRIME HEALTHCARE SERVICES .....	19
<b>PARADISE VALLEY HOSPITAL VALUATION/SALES PRICE .....</b>	<b>24</b>
<b>PARADISE VALLEY HOSPITAL HEALTHCARE SERVICE AREA DESCRIPTION .....</b>	<b>27</b>
PARADISE VALLEY HOSPITAL WITHIN THE SAFETY NET .....	27
PARADISE VALLEY HEALTH SERVICE AREA DEFINITION .....	29
SERVICE AREA MAP .....	30
DEMOGRAPHIC PROFILE .....	31
HOSPITAL SUPPLY, DEMAND AND MARKET SHARE.....	36
<b>SUMMARY OF COMMUNITY INTERVIEWS .....</b>	<b>61</b>
REASONS FOR THE SALE OF PARADISE VALLEY HOSPITAL.....	61
ACQUISITION BY PRIME .....	61
PARADISE VALLEY HOSPITAL SALES PROCESS.....	62
IMPORTANCE OF PARADISE VALLEY HOSPITAL TO THE COMMUNITY.....	62
POTENTIAL CLOSURE OF THE HOSPITAL .....	63
COMMUNICATION ABOUT THE SALE.....	63
OPPOSITION TO THE SALE .....	63
<b>ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE ACCESSIBILITY AND AVAILABILITY OF HEALTHCARE SERVICES.....</b>	<b>64</b>
CONTINUATION OF PARADISE VALLEY HOSPITAL AS A GENERAL ACUTE CARE HOSPITAL.....	64
IMPACT ON THE SAFETY NET.....	64
MEDICAL/SURGICAL, DEFINITIVE OBSERVATION, INTENSIVE CARE/CORONARY CARE SERVICES .....	65
OBSTETRICAL SERVICES .....	65
EMERGENCY SERVICES.....	65
PARADISE VALLEY HEALTH CLINICS .....	65
PSYCHIATRIC SERVICES.....	65
REHABILITATION SERVICES .....	65
NEONATAL INTENSIVE CARE UNIT AND PEDIATRICS.....	66
REPRODUCTIVE HEALTH SERVICES .....	66
EFFECTS ON THE LEVEL AND TYPE OF CHARITY CARE HISTORICALLY PROVIDED .....	67
EFFECTS ON COMMUNITY BENEFIT PROGRAMS .....	67
EFFECTS ON STAFFING AND EMPLOYEE RIGHTS .....	68
EFFECTS ON THE MEDICAL STAFF .....	68
EFFECTS ON PATIENT ACCESS .....	68
ALTERNATIVES .....	68
<b>CONCLUSIONS.....</b>	<b>69</b>
ACQUISITION AGREEMENT MITIGATION MEASURES .....	69
POTENTIAL CONDITIONS FOR TRANSACTION APPROVAL BY THE ATTORNEY GENERAL .....	69
RECOMMENDED ACTION .....	71
<b>APPENDIX .....</b>	<b>72</b>

## INTRODUCTION AND PURPOSE

Adventist Health System/West, a California nonprofit religious corporation (“Adventist Health”) is the sole member of Paradise Valley Hospital (“PVH” or the “Hospital”) located in National City, California. PVH has requested the California Attorney General’s consent for the sale of substantially all of its assets including the hospital, and outpatient pavilion, three neighboring medical office buildings, a skilled nursing and assisted living facility, associated property and certain associated intangible assets, to Prime Healthcare Services, Inc. a Delaware for-profit corporation and Prime A Investments, Inc., a Delaware for-profit limited liability company (“Purchaser” or “Prime”).

This report, prepared for the Office of the Attorney General, describes the possible effects that the proposed transaction may have on the delivery, accessibility and availability of healthcare services in the service area.

Medical Development Specialists, Inc. (“MDS”), a healthcare planning and policy consulting firm, was retained to analyze the “health impacts” of this proposed transaction. MDS has prepared this report based upon the following:

- A review of the documents filed with the Attorney General by Adventist Health dated November 6, 2006, in its request for consent to the transaction;
- Review of various press releases and news articles related to PVH and other hospital sales transactions;
- Interviews with community members and representatives, PVH medical staff, PVH management, PVH Board members, the Chairman and the President of Prime, other Prime executives, Adventist Health executives, the Director of the County Emergency Medical Services, the interim Director of San Diego County Mental Health and others;
- An analysis of financial, utilization and service information provided by PVH management and the California Office of Statewide Health Planning and Development (“OSHPD”);
- An analysis of area healthcare services using OSHPD data and the findings from the 2005 California Health Interview Survey; and
- The 2006 San Diego Healthcare Safety Net Study and other various sources.

## **BACKGROUND AND DESCRIPTION OF THE TRANSACTION**

The Hospital, which was purchased in 1904 to be a Seventh-day Adventist Healthcare institution, is currently licensed for 301 beds and offers services including emergency, obstetrics, pediatrics, rehabilitation and mental health as well as other inpatient and outpatient services.

PVH is a member of Adventist Health, which is headquartered in Roseville, California and operates healthcare facilities throughout California, Hawaii, Oregon and Washington. The system includes 20 hospitals with more than 3,100 beds, 19,000 employees, numerous clinics and outpatient facilities, 16 home care agencies and three joint-venture retirement centers.

The Paradise Valley Hospital Foundation also exists as a separate nonprofit organization to raise funds for the Hospital's capital projects and expansion. The Foundation's Board consists of about 20 community members including physicians, attorneys, business leaders and others. The Foundation raised over \$600,000 in contribution revenue in 2006 and has approximately \$425,000 in net assets as of October 31, 2006. The Foundation is not included in the sale and will continue to operate with a mission to support community healthcare needs independently of the Hospital.

### **Reasons for the Sale**

About a year ago, in response to declines in overall profitability as well as expectations for capital requirements of over \$1.2 billion for seismic and other facility improvements in the next 10 years, Adventist Health states that it went through a strategic evaluation process with its Board. As a result of that process, Adventist Health determined that it could not afford to sustain PVH's financial losses and needed to preserve capital to meet seismic requirements at other owned facilities.

PVH had reported losses on operations in all years from 2001-2005 ranging from approximately \$2 million to \$7 million per year. Additionally, seismic related renovations for PVH were estimated at \$61 million in 2000. Because of these circumstances, the Adventist Health Board of Directors determined that the organization could not afford seismic improvements to PVH and would need to sell the Hospital or close it within the next 5 years, before 2011.

In 2006, PVH's financial condition progressively worsened as a result of the following:

- Increasing bad debt and charity care expenses;
- Overall expense increases; and
- California State mandated increases in nurse staffing ratios.

Then, sometime around midyear 2006, Adventist Health management states that it was approached by Prime about the opportunity to purchase PVH and on September 19, 2006 the Board of Directors for Adventist Health voted to authorize management "to negotiate an asset

transfer agreement with Prime Healthcare and to bring that agreement to the Board for final approval.”

## **Summary of the Acquisition Agreement**

The major provisions of the Acquisition Agreement, dated October 27, 2006 include the following:

- Prime will purchase substantially all of the assets of PVH including the Hospital with approximately 30.5 acres of land, Hospital property, three neighboring medical office buildings on approximately 4.5 acres of land, property leases, equipment, inventory, supplies, assets, etc. for \$30 million;
- Prime will not purchase accounts receivable;
- Prime intends to extend offers of employment to substantially all current employees of the Hospital at their current level of compensation and with the same benefits;
- Prime will comply with its charity care policies as in effect at its other hospitals;
- Prime agrees to maintain medical staff privileges for medical staff members in good standing as of the closing date;
- Prime agrees to form a local advisory committee of medical staff and community leaders; and
- Prime agrees to accept the California Attorney General conditions “provided that they are reasonably related to ensuring that purchaser continue to preserve current Hospital services and continue to provide current charitable medical services and community benefit programs.”

## **Use of Net Sales Proceeds**

After paying for the debts and obligations of PVH, the remaining assets are intended to be distributed to Adventist Health which is organized and operated exclusively for religious purposes and is tax exempt under Section 501(c)(3) of 1986 Internal Revenue Code. Adventist Health intends to use any proceeds for PVH after paying off outstanding obligations, including bond indebtedness of approximately \$12 million to continue its mission in communities served by other religious institutions that are controlled by Adventist Health.

## **Excluded Assets**

The sale of PVH does not include the following projects and services that are expected to be continued forward by Adventist Health:

- 1) Paradise Walk: a community of 96 town homes intended for hospital employees as an aid to recruitment and retention. PVH sold the land to the Olson Company for development;
- 2) Paradise Village: a 12 acre senior community development with 406 independent living units and 92 assisted living units; and
- 3) The Home Health Program that provides approximately 23,000 visits annually.

# PARADISE VALLEY HOSPITAL'S PROFILE

## ***General Information***

PVH is a 301-bed general acute care facility with its main campus located on 2400 East Fourth Street, National City, California, 91950, on approximately 54 acres of land. The physical plant of the main campus area being sold consists of 237 beds and support facilities totaling approximately 216,000 square feet, an adjacent outpatient clinic and medical office building with 70,646 square feet, a skilled nursing and assisted living facility with 75,000 square feet, a historic residence and five single family homes situated on approximately 30.5 acres. Additionally, PVH owns three neighboring medical office buildings and leases the Bayview Behavioral Health facility. Additional information includes:

- PVH has a total of 301 licensed beds with 64 of the psychiatric and chemical dependency beds located at its Bayview Campus at 330 Moss Street, Chula Vista, California, 91911;
- PVH has a facility for assisted living (50 beds) and skilled nursing (86 beds) that is operated under a lease by the Paradise Valley Healthcare Center, also known as the Paradise Valley Manor;
- PVH owns three additional medical offices buildings:
  - 1) 502 Euclid Medical Office Building is on 2.19 acres of property and has 95,320 square feet.
  - 2) 610 Euclid Medical Office Building is on 0.75 acres of property and has 32,701 square feet.
  - 3) 2345 East 8<sup>th</sup> Street Medical Office Building is on 1.63 acres of property and has 70,856 square feet.
- In 2005, Paradise Valley Hospital had an average census of nearly 206 patients (including Bayview). While the census has fluctuated in late 2006 due to many factors it has recently been reported in January 2007 to be approximately 200 patients;
- PVH is an important safety net hospital being the third largest provider of services to underinsured residents (Medi-Cal, County indigent and other indigent) of both the south and central areas of San Diego County as measured by total inpatient discharges;
- PVH is the largest provider of Behavioral Health Services in San Diego County;
- PVH has a home health agency that provided approximately 23,000 patient visits in 2005. There is also a partial hospitalization (an outpatient psychiatric treatment program) program, which provided 25,497 visits in 2005;
- PVH had 2,162 obstetrical deliveries in 2005 and had 1,973 through November of 2006; and
- The Hospital has 186 active medical staff members and, as the largest employer in National City, employs 1,131 full-time equivalent employees.

PVH's 237 acute care beds (198 General Acute Care and 39 Acute Psychiatric) are licensed as follows:

Perinatal Services	23
Rehabilitation Center	22
Intensive Care	10
Intensive Care Newborn Nursery	10
Pediatric Services	10
Coronary Care	5
Unspecified General Acute Care	118
Acute Psychiatric	<u>39</u>
<b>Total</b>	<b>237</b>

PVH's Bayview Behavioral Health, which is a leased facility from Rush Properties of Del Mar, California, has 64 beds licensed as follows:

Acute Psychiatric	46
Chemical Dependency Recovery	<u>18</u>
<b>Total</b>	<b>64</b>

Some key statistics about PVH are as follows:

<b>Paradise Valley Hospital Fiscal Year 2005 Key Statistics</b>	
Acute Licensed Beds	198
Psychiatric Licensed Beds	103
Total Licensed Beds	301
Inpatient Discharges	13,272
Average Daily Census	205.8
Outpatient Visits	93,341
Emergency Visits	38,896
Partial Hospitalization Program	25,497
Home Health Visits	22,982
Cardiac Catheterization Procedures	796
Obstetrical Deliveries	2,162
Active Physicians on Medical Staff	186
Number of Employees (FTEs)	1,131

Sources: FY 2005 OSHPD Disclosure Report

## ***Programs and Services***

PVH is a community hospital that offers primary and secondary medical and surgical healthcare services that are common to most general acute care hospitals. Specialized programs and services include a rehabilitation center, perinatal program, pediatric program, and acute psychiatry and chemical dependency programs. The list of services includes:

- 24-hour emergency services;
- Perinatal services: normal nursery, obstetrics, special care nursery;
- Mental health/behavioral health services;
- Healthy Beginnings/Nueva Esperanza: drug rehabilitation for mothers/expectant mothers;
- Orthopedics;
- Rehabilitation: physical therapy, occupational therapy, recreational therapy and speech therapy;
- Home care services: home care, certified home health, private duty nursing, home infusion therapy, home medical equipment;
- Paradise Family and Senior Health Centers;
- Surgical services: outpatient and inpatient;
- Intensive care unit (ICU) and coronary care unit (CCU);
- Definitive observation unit (DOU);
- Pediatrics;
- Cardiac catheterization lab;
- Center for Wound Care and hyperbaric chamber;
- Radiology (X-Ray): digital angiography, mammography, magnetic resonance imaging (MRI), nuclear medicine, spiral computerized tomography (CT), ultrasound and bone densitometry;
- Dialysis;
- Laboratory/pathology;
- Cardiology;
- Radiology; and
- Respiratory therapy



## ***Seismic, Certification and Accreditation Issues***

An executive summary was prepared by Degenkolk Engineers of Los Angeles, California regarding studies prepared in response to Senate Bill 1953 legislation that requires all California Hospitals to evaluate and report to Office of Statewide Health and Development (OSHPD) the expected seismic performance of acute care hospital buildings.

Based on this report, prepared on January 14, 2000, the main tower, west wing and storage building were designed and constructed before the 1973 Hospital Seismic Safety Act and require strengthening by 2013 or must be removed from service.

The east wing and emergency room expansion were designed after 1973 and meet requirements for 2013, but must be strengthened by 2030 to achieve required ratings.

The cost to make all renovations to all buildings for compliance to 2030 standards was estimated in 2000 to be \$61 million.

In August of 2006, several inspections from the Center for Medicare and Medicaid Services found multiple deficiencies that required corrections to avoid a cut off of federal reimbursement. PVH is required to make changes to maintain Joint Commission on Accreditation of Healthcare Organizations certification.

Additionally, on September 27, 2006, an inspection from JCAHO identified several serious problems involving infection control and medication management. These problems also put PVH's accreditation at risk unless corrected.

## Patient Volume

The following table shows patient volume trends at PVH for fiscal years 2001 through November of 2006.

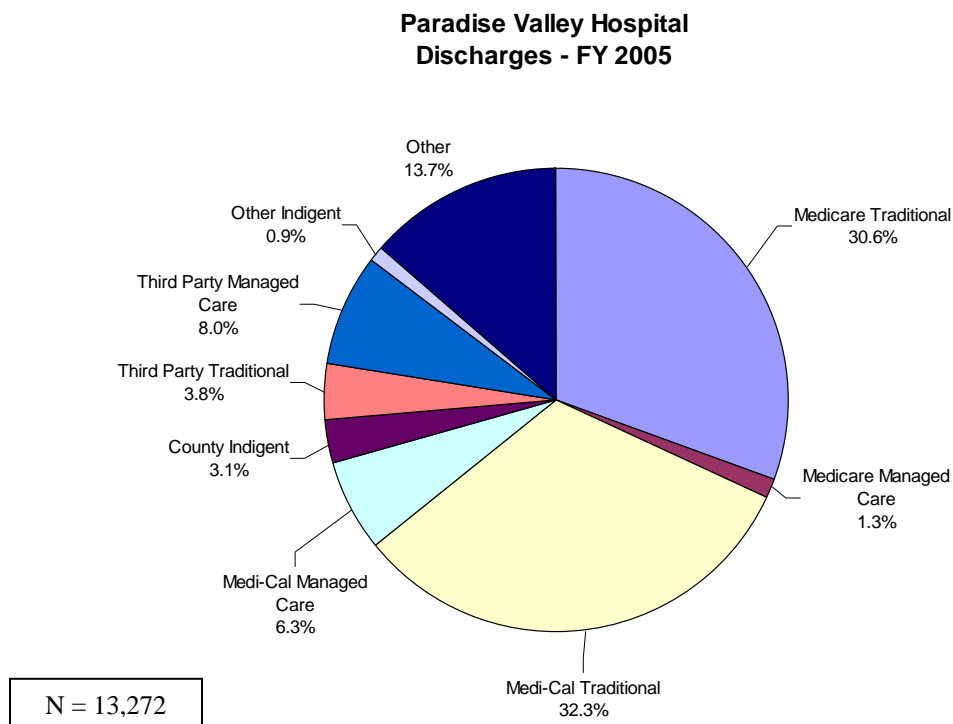
Paradise Valley Hospital - Service Volumes						
	2001	2002	2003	2004	2005	2006 YTD (1)
<b>PATIENT DAYS</b>						
Medical ICU/CCU	4,135	4,151	3,929	4,344	4,049	4,189
NICU	702	518	610	622	880	**
Definitive Observation	9,338	8,384	8,919	7,310	4,355	***
Med/Surg	18,858	20,124	19,690	20,822	25,836	25,487
Pediatric Acute	635	918	732	891	783	527
Psychiatric Adult	21,643	22,632	25,570	26,616	25,760	27,024
Psychiatric - Child	9,197	8,351	4,056	4,112	3,446	****
Obstetrical	3,581	3,488	3,543	3,931	4,387	3,878
Physical Rehabilitation	4,677	4,690	4,695	5,105	5,624	4,882
<b>Total</b>	<b>72,766</b>	<b>73,256</b>	<b>71,744</b>	<b>73,753</b>	<b>75,120</b>	<b>65,987</b>
<b>DISCHARGES</b>						
Medical ICU/CCU	310	324	302	284	300	195
NICU	397	298	80	87	121	**
Definitive Observation	1,392	1,332	1,349	988	475	***
Med/Surg	4,095	4,329	4,383	4,679	5,283	5,096
Pediatric Acute	311	366	317	395	468	388
Psychiatric Adult	2,436	2,742	3,559	3,890	3,631	3,550
Psychiatric - Child	872	847	446	509	465	****
Obstetrical	1,814	1,811	1,980	2,069	2,183	1,973
Physical Rehabilitation	290	307	294	303	346	284
<b>Total</b>	<b>11,917</b>	<b>12,356</b>	<b>12,710</b>	<b>13,204</b>	<b>13,272</b>	<b>11,486</b>
<b>AVERAGE DAILY CENSUS</b>						
Medical ICU/CCU	11.33	11.37	10.76	11.87	11.09	11.48
NICU	1.92	1.42	1.67	1.70	2.41	**
Definitive Observation	25.58	22.97	24.44	19.97	11.93	***
Med/Surg	51.67	55.13	53.95	56.89	70.78	69.83
Pediatric Acute	1.74	2.52	2.01	2.43	2.15	1.44
Psychiatric Adult	59.30	62.01	70.05	72.72	70.58	74.04
Psychiatric - Child	25.20	22.88	11.11	11.23	9.44	****
Obstetrical	9.81	9.56	9.71	10.74	12.02	10.62
Physical Rehabilitation	12.81	12.85	12.86	13.95	15.41	13.38
<b>Total</b>	<b>199.4</b>	<b>200.7</b>	<b>196.6</b>	<b>201.5</b>	<b>205.8</b>	<b>180.8</b>
<b>OTHER SERVICES</b>						
I/P Surgeries	1,541	1,288	1,422	1,598	1,672	1,479
O/P Surgeries	2,071	1,740	1,910	1,966	1,996	1,911
Emergency (incl. admitted)	30,141	32,272	36,239	35,649	38,626	34,300
Partial Hosp Visits	21,839	21,446	19,386	21,749	25,497	Unavail.
Home Health Visits	19,847	21,640	26,312	21,996	22,982	Unavail.
Cardiac Cath Procedures	212	409	546	710	796	794
Obstetric Deliveries	1,732	1,695	1,755	1,958	2,162	Unavail.
(1) YTD through 11/30/06; ** In 2006, data included in Med/Surg ICU/CCU; *** In 2006, data included in Med/Surg; **** In 2006, data included in Adult Psychiatric						
Sources: PVH Staff (2006 data), OSHPD Disclosure Reports (fiscal years ending 12/31)						

A review of historical utilization trends supports the following conclusions:

- The overall average daily census 206 in 2005 was relatively consistent for the last four years consisting of approximately 80 psychiatric patients and 126 non-psychiatric patients. Thus, an average of approximately 95 licensed beds has been unoccupied;
- Total discharges between 2001 and 2005 grew by 10.2%, while total patient days grew by only 3%;
- Both inpatient and outpatient surgeries have been relatively stable over the five-year period;
- The Pediatric and NICU services have a very small census of between 2-3 patients each;
- Deliveries have consistently increased over the time period, reaching over 2,000 per year since 2004;
- Psychiatric adult days increased about 16% from 2001 to 2005 while psychiatric child days decreased by almost 47% in the same time period;
- NICU discharges have decreased significantly since 2001; and
- Emergency visits, home health, partial hospitalization and cardiac catheterizations have all increased significantly since 2001.

## ***Payer Mix***

Medi-Cal is the largest payer at PVH, representing approximately 39% of annual discharges (2005) with Medicare comprising 32%. Third party managed care (commercial) patients were comparatively a very small proportion of discharges accounting for only 8% of all patients. Additionally, the Hospital had 4% of discharges in the indigent categories (uninsured/poor), which is a relatively high percentage compared to other hospitals in California.



\* Other includes self-pay, workers' compensation, other government and other payers.

Source: OSHPD Financial Disclosure Report, FYE 12/31/05

## Medical Staff

PVH has 186 “active” physicians on the medical staff and a nearly full complement of physician specialties. There are 13 psychiatrists on the medical staff. This is comparatively high because of the large psychiatric program. Only 80% of PVH’s active medical staff is board certified which is comparatively low for a hospital (normally closer to 85% or higher).

Paradise Valley Hospital Active Medical Staff - 2004			
Specialty	Board Certified	Board Eligible	Other
Aerospace Medicine			
Allergy and Immunology			
Anesthesiology	4	1	2
Cardiovascular Disease	5		2
Forensic Pathology			
Gastroenterology	8		
General/Family Practice	7		8
General Surgery	7		
Internal Medicine	26	1	8
Neurological Surgery	4		
Neurology	2		
OB/Gyn	8		1
Oncology	2		1
Oral Surgery			1
Ophthalmology	4		
Orthopedic Surgery	3		
Otolaryngology	3		
Pathology	4		
Pediatrics	9		2
Podiatry			
Physical Medicine/Rehab	3		
Plastic Surgery	1		
Psychiatry	10	1	2
Pulmonary Disease	5		1
Radiology	2		
Thoracic Surgery	2		
Urology			
Vascular Surgery	5		1
Other	25	2	3
<b>Total</b>	<b>149</b>	<b>5</b>	<b>32</b>
Source: OSHPD Disclosure Report, PVH			

## Financial Profile

PVH has grown net operating revenue from \$91,538,063 in 2001 to \$134,315,873 in 2005, which is a 47% increase in four years. However, PVH reported losses in fiscal years 2003 and 2004 of over \$3 million combined. In 2005, operational expenses increased by nearly \$7 million over fiscal year 2004 with only a small increase in patient volume. The Hospital's operating margin in 2005 was -4.8% which is substantially lower than the average of California hospitals' operating margin of -1.0%. PVH has consistently lost \$2,000,000 to \$6,800,000 on operations, before considering non-operating revenue.

PVH's current ratio of 1.97 (current assets divided by current debts) is slightly stronger than the statewide average of 1.45. PVH's bad debt percentage at 4.3% is more than double the state hospital average of 1.9%.

Paradise Valley Hospital Financial and Ratio Analysis						
		2001	2002	2003	2004	2005
Patient Days		72,766	73,256	71,744	73,753	75,120
Discharges		11,917	12,356	12,710	13,204	13,272
ALOS		6.1	5.9	5.6	5.6	5.7
Net Operating Revenue		\$91,538,063	\$106,382,711	\$117,424,304	\$130,309,084	\$134,315,873
Operating Expense		\$98,371,629	\$108,517,204	\$121,891,603	\$133,729,520	\$140,718,188
Net from Operations		(\$6,833,566)	(\$2,134,493)	(\$4,467,299)	(\$3,420,436)	(\$6,402,315)
Net Non-Operating Rev.		\$2,341,817	\$2,240,840	\$3,367,042	\$1,518,714	\$6,630,541
Net Income		(\$4,491,749)	\$106,347	(\$1,100,257)	(\$1,901,722)	\$228,226
	California Median*					
Current Ratio	1.47	2.00	1.56	1.93	2.11	1.97
Days in A/R	61.3	63.9	52.7	49.5	47.0	56.4
Bad Debt Rate	1.8%	3.6%	4.0%	4.1%	4.4%	4.3%
Operating Margin	0.4%	-7.5%	-2.0%	-3.8%	-2.6%	-4.8%

Sources: \*Summary of OSHPD Disclosure Reports, 2005

## Cost of Services

The operating cost of services by payer category, which includes both inpatient and outpatient care, was calculated for the past five years. In 2005, 45.4% of PVH's total costs were associated with Medicare patients and 32.0% of all costs were from Medi-Cal. Third party payers comprised 11.3% of overall costs.

The cost of services provided for County indigent and other indigent patients has steadily risen from \$4.6 million in 2001 to \$5.7 million in 2005.

The majority of the cost is associated with services to Medicare and Medi-Cal patients with approximately 77% of the \$140,700,000 associated with these two payer categories.

Paradise Valley Hospital Cost of Services - By Payer Category					
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Operating Expenses	\$98,371,629	\$108,517,204	\$121,891,520	\$133,729,520	\$140,718,188
Cost of Services By Payer:					
Medicare	\$47,388,238	\$51,153,959	\$57,678,281	\$62,558,758	\$63,873,280
Medi-Cal	\$34,343,235	\$38,116,674	\$41,730,754	\$44,438,036	\$45,080,706
County Indigent	\$3,830,081	\$4,799,825	\$4,197,333	\$4,981,524	\$5,015,713
Third Party	\$6,463,622	\$7,864,603	\$10,157,424	\$12,196,085	\$15,900,093
Other Indigent	\$741,035	\$544,119	\$855,468	\$849,100	\$701,574
Other	\$5,605,417	\$6,038,024	\$7,272,344	\$8,706,017	\$10,146,822
Source: OSHPD Disclosure Reports, PVH's fiscal years ends 12/31.					

## Charity Care

Because different sources of hospital reports of charity care charges often differ, MDS relied on the final OSHPD reports and the OSHPD website which reported the same numbers for five fiscal year periods as follows:

<b>OSHPD Charity Care Paradise Valley Hospital Fiscal Years 2001 to 2005</b>	
<b>Year</b>	<b>Total Charges</b>
<b>2005 (1)</b>	\$4,455,471
<b>2004</b>	\$8,665,732
<b>2003</b>	\$8,679,156
<b>2002</b>	\$7,274,237
<b>2001</b>	\$7,035,618
<b>Average 2001 - 04</b>	\$7,913,686
(1) PVH is revising 2005 Charity Care number; 2005 was not included in the average calculation because of the pending revision. PVH's fiscal year ends 12/31	

The charity care total charges have risen from \$7 million in 2001 to \$8.7 million in 2004.

An interview with PVH's CFO indicated that the 2005 OSHPD Disclosure Report inclusion of charity care was inaccurate and is being revised. This revision would include an increase to Charity Care (which is unavailable at this time).

The following table shows a comparison of charity care and bad debt for PVH and all hospitals in the State of California. The four-year average of charity care and bad debt for PVH as a percent of gross patient revenue was 6.3%. This is much greater than the state average of 3.1%.



Charity Care Comparison Paradise Valley Hospital - FY 2001 to 2005										
	2001		2002		2003		2004		2005	
	PVH	State of Calif.	PVH	State of Calif.	PVH	State of Calif.	PVH	State of Calif.	PVH	State of Calif.
Gross Pt Revenue	\$218,344,904	\$107,857,181,195	\$303,919,868	\$127,114,241,723	\$444,098,721	\$150,495,549,739	\$526,281,191	\$163,424,851,895	\$553,929,976	\$179,239,418,762
Charity	\$7,035,618	\$1,511,642,025	\$7,274,237	\$1,563,404,777	\$8,679,156	\$1,919,126,612	\$8,665,732	\$2,136,025,312	\$4,455,471	\$2,258,882,884
Bad Debt	\$7,840,023	\$2,022,282,978	\$12,131,285	\$2,176,888,212	\$18,072,496	\$2,575,027,378	\$22,884,365	\$3,094,367,040	\$23,756,842	\$3,277,108,723
Total	\$14,875,641	\$3,533,925,003	\$19,405,522	\$3,740,292,989	\$26,751,652	\$4,494,153,990	\$31,550,097	\$5,230,392,352	\$28,212,313	\$5,535,991,607
Charity as a % of Gross Rev.	3.2%	1.4%	2.4%	1.2%	2.0%	1.3%	1.6%	1.3%	0.8%	1.3%
Bad Debt as a % of Gross Rev.	3.6%	1.9%	4.0%	1.7%	4.1%	1.7%	4.3%	1.9%	4.3%	1.8%
Total as a % of Gross Rev.	6.8%	3.3%	6.4%	2.9%	6.0%	3.0%	6.0%	3.2%	5.1%	3.1%
Uncompensated Care										
Cost to Charge Ratio	44.0%	32.5%	35.0%	30.2%	26.7%	28.1%	25.1%	27.9%	24.2%	27.0%
Charity	\$3,095,672	\$491,632,949	\$2,545,983	\$471,903,377	\$2,317,335	\$539,998,790	\$2,175,099	\$507,655,680	\$1,078,224	\$610,801,932
Bad Debt	\$3,449,610	\$657,709,252	\$4,245,950	\$657,079,288	\$4,825,356	\$724,554,420	\$5,743,976	\$879,714,084	\$5,749,156	\$886,130,199
Total	\$6,545,282	\$1,149,342,201	\$6,791,933	\$1,128,982,665	\$7,142,691	\$1,264,553,210	\$7,919,074	\$1,387,369,764	\$6,827,380	\$1,496,932,131

Source: OSHPD Disclosure Reports, PVH's fiscal years ends 12/31.

The PVH Cost of Charity Care table shows the charges for charity care adjusted to cost based upon applying the Hospital's ratio of cost to charges for each year. The cost of charity care decreased from \$3,094,320 in FY 2001 to \$2,176,980 in FY 2004 (FY 2005 excluded because of pending financial reporting revisions). The average cost of charity care for the four years was \$2,532,839.

The cost of charity care compared to total costs was 3.1% in 2001 and decreased to 1.6% in 2004.

Paradise Valley Hospital Cost of Charity Care				
Year	PVH Charity Care Charges (1)	Cost to Charge Ratio	Cost of Charity Care to PVH	Percent of Total Costs Represented by Charity Care
<b>FY 2005</b>	\$4,455,471	24.2%	\$1,078,518	0.8%
<b>FY 2004</b>	\$8,665,732	25.1%	\$2,176,980	1.6%
<b>FY 2003</b>	\$8,679,156	26.7%	\$2,316,360	1.9%
<b>FY 2002</b>	\$7,274,237	35.0%	\$2,543,695	2.3%
<b>FY 2001</b>	\$7,035,618	44.0%	\$3,094,320	3.1%

(1) Charity Care charges are based on final OSHPD figures. 2005 figure subject to revision.

PVH provided its internal record of charity care charges by department. In 2005, 77.9% of the charges were for inpatients, while the emergency room accounted for just 15.6% of the charges.

Charity Care by Services				
Paradise Valley Hospital FY 2001-2005				
By Department				
	Inpatient	Outpatient	Emergency Room	Total Charges
<b>2005:</b>				
Charges	\$6,497,427	\$567,290	\$1,303,015	\$8,339,316
<b>2004:</b>				
Charges	\$6,199,047	\$959,760	\$1,506,926	\$8,665,732
<b>2003:</b>				
Charges	\$5,750,772	\$1,558,446	\$1,369,938	\$8,679,156
<b>2002:</b>				
Charges	\$4,323,698	\$2,073,123	\$877,416	\$7,274,237
<b>2001:</b>				
Charges	\$4,392,829	\$2,289,192	\$353,597	\$7,035,618
Source: PVH				
2005 "Total Charges" number provided by PVH not yet available from OSHPD.				

## Community Benefit Services

As required by California Senate Bill 697, PVH has completed annual community benefit plans. The Hospital has supported initiatives involving community education, screening programs, patient transportation and various programs designed for youth and seniors.

The Hospital staff has been actively involved in various community collaborations for health education and prevention. In 2005, the cost for community benefit services was \$98,803. Additionally, PVH donated \$194,088 to various organizations including \$72,500 to the Campanile Foundation and \$10,000 to the San Diego Academy.

The largest community benefit program supported by PVH involves the provision of transportation services. Approximately 75% of the transportation services provided by PVH employees and vehicles involve Bayview psychiatric patients. The remaining transportation services are used to transport patients for various outpatient services. For 2004 and 2005, costs for transportation services averaged \$884,000. In combination, PVH's total annual community benefit services are about \$1.2 million.

In addition to Community Benefit Services, PVH has offered County grant-funded programs that serve the community as shown below. While both ALLY programs can be continued with the change in ownership to Prime, the other grant-funded programs would need to be shifted to other nonprofit organizations, but they would not be lost to the community.

Paradise Valley Hospital Grant Programs as of October 31, 2006						
Name of Grant	Description	Grant Checks Issued By	Non-profit Requirement	2006	2005	2004
ALLY National City Grant	Early & Periodic screening/Diag/ & treat-for children's mental health	County of San Diego		\$ 470,500	\$ 470,500	\$ -
ALLY South Bay-same	Early & Periodic screening/Diag/ & treat-for children's mental health	County of San Diego		\$ 457,000	\$ 457,000	\$ -
Mental Health Services Act	Mental Health-Clubhouse Employment Services	County of San Diego		\$ 25,000	\$ -	\$ -
Healthy Beginnings	Alcohol & Other Drug Perinatal Non-residential Services to pregnant women up to 17 years old	County of San Diego (Block Grant)	X	\$ 346,469	\$ 346,469	\$ 173,235
South Bay Partnership	Alcohol & Drug prevention	County of San Diego (Block Grant)	X	\$ 345,000	\$ 345,000	\$ -
South Bay Partnership	Healthy Eating, Active Community Prog.	The California Endowment	X	\$ 204,000	\$ 153,000	\$ -
HUD Health Homes Grant	Healthy Homes inspections in the target area west of I 805	City of National City	X	\$ 55,340	\$ -	\$ -

## Prime Healthcare Services

Prime owns and operates seven hospitals, all of which are in Southern California. Four hospitals were only recently acquired, while three have been operated for a year or more. Information for these three hospitals, Desert Valley Hospital (“DVH”) in Victorville, Chino Valley Medical Center (“Chino”) in Chino and Sherman Oaks Hospital (“SOH”) in Sherman Oaks, is shown on the following table. The hospitals are licensed by the State of California Department of Health Services and accredited by the Joint Commission on Accreditation of Healthcare Organizations or the American Osteopathic Association. DVH has been recently recognized in “Solucient’s” 100 Top Hospitals: Benchmarks for Success program for the “Small Community Hospital” category. A profile of the hospitals is provided in the table below:

Profile Data for Hospitals Owned by Prime			
FY 2005/2006			
	Desert Valley Hospital	Chino Valley Medical Center*	Sherman Oaks Hospital**
Type of Care	General Acute	General Acute	General Acute
City	Victorville	Chino	Sherman Oaks
Licensed Beds	83	126	153
Patient Days	24,579	19,457	24,713
Discharges	6,919	7,214	4,637
Inpatient Surgeries	4,004	2,690	1,357
Outpatient Surgeries	4,286	5,813	2,564
Births	453	516	0
<b>Payer Mix:</b>			
Traditional Medicare	36.2%	25.7%	66.8%
Managed Medicare	23.2%	10.8%	4.1%
Traditional Medi-Cal	11.4%	23.0%	7.6%
Managed Medi-Cal	3.5%	11.5%	1.3%
County Indigent	0.5%	0.0%	0.0%
Traditional Third Party	2.4%	5.7%	8.9%
Managed Third Party	19.3%	21.3%	7.1%
Other Indigent	2.5%	0.0%	0.0%
Other	1.0%	2.0%	4.1%
Total	100.0%	100.0%	100.0%
<b>Income Statement:</b>			
Net Pt Revenue	\$ 82,525,502	\$ 76,033,630	\$ 68,572,432
Other Operating Rev.	\$ 233,847	\$ 609,512	\$ 1,288,287
Total Operating Rev.	\$ 82,759,349	\$ 76,643,142	\$ 69,860,719
Total Operating Exp.	\$ 73,214,855	\$ 52,510,221	\$ 68,860,981
Net From Operations	\$ 9,544,494	\$ 24,132,921	\$ 999,738
Nonoperating Rev.	\$ 717,625	\$ 3,213,302	\$ (62,300)
Nonoperating Exp	\$ 776,860	\$ 400,751	\$ (55,998)
Provision for Taxes	\$ (1,491)	\$ 1,124,623	\$ -
Net Income	\$9,486,750	\$25,820,849	\$993,436
<b>Other Financial:</b>			
Charity Care Charges	\$10,538,545	\$3,118,531	\$1,761,355
Bad Debt Charges	\$16,801,375	\$9,851,859	\$11,304,013
Total Uncompensated Care	\$27,339,920	\$12,970,390	\$13,065,368
Uncompensated Care as % of Chgs.	8.3%	5.6%	4.8%
State of Calif. Uncompensated Care	3.1%	3.1%	3.1%
Fiscal Year Ending	12/31/2005	12/31/2005	1/31/2006
* Based on revision submitted to OSHPD			
** Former owners of Sherman Oaks Hospital had subtracted \$19,600,000 as a negative nonoperating expense based on the gain on the sale of the facility. This amount was eliminated from the nonoperating expense category.			
Source: OSHPD Financial Disclosure Reports			

Some important observations about the table include:

- County indigent volumes are either small or non-existent because of the presence of County Hospitals in Los Angeles and San Bernardino Counties.
- The proportion of uncompensated care (bad debt and charity care) provided by these three hospitals far exceeds statewide hospital averages.
- While all three hospitals are profitable, Chino Valley Medical Center's profitability is overstated, according to Prime Executives, because of the Hospital sales transaction and related treatment of expenses and debt.
- DVH and Chino both treat a sizeable number of Medi-Cal patients (15% and 35% respectively).
- DVH and Chino both treat a sizeable number of managed care patients.

Prime's Chairman, Dr. Prem Reddy, stated that the organization's goal is to successfully operate small primary and secondary care hospitals. His intention is to expand and improve the services at PVH, to grow market share and improve financial performance. He has also stated Prime's commitment to maintain or expand key services, add new services and continue providing historical levels of charity care. Prime's business strategies to turn around acquired, financially distressed hospitals have included:

- Cancellation of existing managed care contracts and a re-negotiation for higher rates for contracted insurers. Non-contracted insurers get billed at non-discounted rates;
- Capital investment in equipment and facility upgrades;
- Use of 24 hour-a-day Hospitalist services and medical oversight and management programs to reduce the average length of stay. This is especially important with regard to Medicare patients where the combination of a lower length of stay that decreases costs and a fixed payment per patient increases profitability;
- Close monitoring and control of costs, which includes elimination of some physician contracts, including physician specialty "on call coverage payments" when they are not dictated by either market conditions or required to maintain necessary hospital services;
- Emphasizing policies or facilities expansion to increase patient volume while reducing ambulance diversions and patient waiting time in the emergency department;
- Financing acquisitions and capital investment improvements by virtue of the sale-lease back of facilities to a REIT (Real Estate Investment Trust). Prime has used Medical Properties Trust in prior transactions and intends to do so for PVH but after the transaction closes. Medical Properties Trust is a real estate company that is traded on the New York Stock Exchange (symbol MPW). It acquires, develops and leases healthcare facilities providing healthcare services. Facilities are leased to experienced healthcare operators pursuant to long-term net leases that require the tenant to bear most of the costs associated with the property. Properties include acute care hospitals, rehabilitation hospitals, ambulatory surgery centers, medical office buildings, and other types of healthcare facilities.

Sherman Oaks Hospital (“SOH”) represents the only non-profit acquisition to date by Prime. Prime provided the following information to MDS from a recent OSPHD submission. It shows a net income of almost \$5 million for three quarters of operation and about \$10 million of uncompensated care (bad debt and charity care).

Sherman Oaks Hospital and Health Center Quarterly Statement - Three Quarters Ending 9/30/06			
Utilization Data:		Income Statement:	
Licensed Beds	153	Net Pt Revenue	\$ 52,458,409
Patient Days	16,675	Other Operating Rev.	\$ 626,385
Discharges	3,974	Total Operating Rev.	\$ 53,084,794
Inpatient Surgeries	963	Total Operating Exp.	\$ 47,742,165
Outpatient Surgeries	966	Net From Operations	\$ 5,342,629
<b>Payer Mix (Discharges):</b>		Nonoperating (Rev) Exp	\$ 563,208
		Provision for Taxes	\$ -
Traditional Medicare	55.3%	Net Income	\$ 4,779,421
Managed Medicare	6.3%	<b>Other Financial:</b>	
Traditional Medi-Cal	10.2%	Charity	\$ 9,336,621
Managed Medi-Cal	3.2%	Bad Debt	\$ 700,249
County Indigent	0.0%		
Traditional Third Party	7.8%		
Managed Third Party	10.0%		
Other Indigent	0.0%		
Other	7.3%		
Total	100.0%		
Source: OSHPD, as submitted by SOHHC			

The following comparative table shows information on SOH before acquisition and after acquisition:

<b>Sherman Oaks Hospital and Health Center Comparison of Before/After Prime Health Acquisition</b>			
	<b>FY 2005</b>	<b>Annualized CY 2006</b>	<b>Change</b>
Licensed Beds	153	153	0
Patient Days	28,507	22,178	-6,329
Discharges	5,120	5,285	165
Ave. Length of Stay	5.57	4.20	-1.37
Total Operating Rev.	\$64,955,626	\$70,602,776	\$5,647,150
Total Operating Exp.	\$70,368,237	\$63,497,079	-\$6,871,158
Net From Operations	-\$5,412,611	\$7,105,697	\$12,518,308
Nonoperating (Rev) Exp	\$338,449	\$749,067	\$410,618
Net Income	-\$5,074,162	\$6,356,630	\$11,430,792
Charity	\$10,142,734	\$12,417,706	\$2,274,972
Bad Debt	\$200,362	\$931,331	\$730,969
<b>Payer Mix:</b>			
Traditional Medicare	68.6%	55.3%	-13.3%
Managed Medicare	3.7%	6.3%	2.6%
Traditional Medi-Cal	6.0%	10.2%	4.2%
Managed Medi-Cal	1.0%	3.2%	2.2%
County Indigent	0.0%	0.0%	0.0%
Traditional Third Party	8.4%	7.8%	-0.6%
Managed Third Party	7.9%	10.0%	2.1%
Other Indigent	0.0%	0.0%	0.0%
Other	4.4%	7.3%	2.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	
Source: SOHHC, Sherman Oaks Health Impact Report, SOHHC Disclosure Reports			

The fiscal year prior to Prime's acquisition of Sherman Oaks Hospital and Health Center (fiscal year 2005) was compared to the annualized first three quarters of 2006 annualized. Patient discharges have increased by more than 3% (from 5,120 to 5,285) in comparison to fiscal year 2005 and 2006.

The patient days declined from 28,507 to 22,178 (22.2%) because the length of stay decreased by an average of 1.37 days per discharge.

Traditional Medicare was the only payer category to decrease in patient discharges (from 68.6% to 55.3%).

SOH went from a \$5 million loss before acquisition to an annualized profit of over \$6 million after acquisition.

The following table shows a profile of the four other hospitals recently acquired by Prime. All four are small hospitals, three of which were losing money in the most recent fiscal year.

Hospitals Recently Purchased by Prime FY 2005/2006				
	Doctor's Hospital of Montclair	Huntington Beach Hospital	West Anaheim Medical Center	La Palma Intercommunity
Type of Care	General Acute	General Acute	General Acute	General Acute
City	Montclair	Huntington Bch	Anaheim	La Palma
Licensed Beds	102	131	219	141
Patient Days	21,736	25,523	40,662	22,111
Discharges	5,925	4,688	9,109	4,674
Inpatient Surgeries	1,634	938	2,170	724
Outpatient Surgeries	3,682	1,711	1,750	1,276
Births	1,033	0	0	661
<b>Payer Mix:</b>				
Traditional Medicare	19.9%	43.4%	35.1%	26.9%
Managed Medicare	15.1%	7.1%	21.1%	0.0%
Traditional Medi-Cal	20.5%	12.6%	3.0%	17.8%
Managed Medi-Cal	7.6%	4.1%	2.3%	0.0%
County Indigent	1.2%	5.8%	3.0%	0.0%
Traditional Third Party	2.3%	11.1%	2.1%	3.7%
Managed Third Party	27.3%	13.1%	30.7%	50.3%
Other Indigent	1.2%	0.4%	0.2%	0.0%
Other	4.9%	2.4%	1.4%	1.3%
Total	100.0%	100.0%	100.0%	100.0%
<b>Income Statement:</b>				
Net Pt Revenue	\$ 36,305,107	\$ 46,347,450	\$ 74,652,260	\$ 37,683,288
Other Operating Rev.	\$ 214,908	\$ 377,590	\$ 730,940	\$ 246,468
Total Operating Rev.	\$ 36,520,015	\$ 46,725,040	\$ 75,383,200	\$ 37,929,756
Total Operating Exp.	\$ 39,540,263	\$ 49,120,761	\$ 66,272,697	\$ 39,207,724
Net From Operations	\$ (3,020,248)	\$ (2,395,721)	\$ 9,110,503	\$ (1,277,968)
Nonoperating Rev.	\$ 444,023	\$ 239,894	\$ 1,485,721	\$ 770,039
Nonoperating Exp	\$ 234,027	\$ -	\$ -	\$ 533,813
Provision for Taxes	\$ 800	\$ -	\$ -	\$ -
Net Income	(\$2,811,052)	(\$2,155,827)	\$10,596,224	(\$1,041,742)
<b>Other Financial:</b>				
Charity Care Charges	\$1,429,447	\$756,174	\$1,185,748	\$548,154
Bad Debt Charges	\$8,180,613	\$4,505,665	\$4,604,363	\$2,499,243
Total Uncompensated Care	\$9,610,060	\$5,261,839	\$5,790,111	\$3,047,397
Uncompensated Care as % of Chgs.	5.6%	2.5%	2.0%	2.1%
State of Calif. Uncompensated Care	3.1%	3.1%	3.1%	3.1%
Fiscal Year Ending	6/30/2005	6/30/2005	6/30/2005	6/30/2005
Source: OSHPD Financial Disclosure Reports				

Because these hospitals were only recently acquired, no comparisons were available regarding before acquisition and after acquisition.



## PARADISE VALLEY HOSPITAL VALUATION/SALES PRICE

The valuation of hospitals is an art and a science, because there can be many variables, intangibles and assumptions that need to be considered, some are based on opinion rather than fact. A fundamental premise in determining the fair market value of a hospital is the earnings history and potential, the location, convenience and reputation of the facility and that of its physicians, technicians, nursing, payers and patients. In the valuation performed by The Camden Group (“TCG”), three valuation methods were used. The first was a Discounted Cash Flow Method where debt-free cash flow was estimated for five years and then discounted to today’s value. An assumption was made that the Hospital would lose money in the current year and in the years following. Losses in the most recent years were as follows:

2003	\$1,100,257
2004	\$1,901,832
2005	\$5,064,767 **
YTD Aug 31, 2006	\$3,824,801

\*\* excludes other revenue of \$5,292,993 for a one-time gain from the sale of land

TCG assumed that these losses would escalate quickly to about \$9 million next year and to \$17 million by year five. Due to the assumption by TCG a valuation on future cash flow was given no merit. The second method of valuation was the Market Method that uses market comparables of similar hospital transactions. This was also not given merit because it was believed that any value would be discounted because of seismic retrofit expenses. The recent sale of Alvarado Hospital for a reported \$22.5 million, according to a Tenet Healthcare Corporation press release, provides a comparative example for PVH. The side by side comparison is shown below:

Hospital Sales Comparison FY 2005/2006		
	Paradise Valley Hospital	Alvarado Hospital Med Ctr
<b>Bed Complement:</b>		
Medical ICU/CCU	15	12
NICU	10	N/A
Definitive Observation	36	52
Med/Surg	82	161
Pediatric Acute	10	N/A
Psychiatric Adult	88	N/A
Psychiatric - Child	15	N/A
Alternative Birthing Ctr	23	N/A
Physical Rehabilitation	22	50
Skilled Nursing		30
Total	301	305
Discharges	13,272	8,430
Inpatient Surgeries	1,672	2,569
Outpatient Surgeries	1,996	3,882
ED Visits (incl. admitted)	38,626	22,626
Deliveries	453	0
<b>Payer Mix:</b>		
Traditional Medicare	30.6%	49.9%
Managed Medicare	1.3%	5.6%
Traditional Medi-Cal	32.3%	10.5%
Managed Medi-Cal	6.3%	1.4%
County Indigent	3.1%	2.3%
Traditional Third Party	3.8%	3.3%
Managed Third Party	8.0%	23.9%
Other Indigent	0.9%	0.9%
Other	13.7%	2.2%
Total	100.0%	100.0%
<b>Income Statement:</b>		
Net Pt Revenue	\$131,423,687	\$126,457,559
Other Operating Rev.	\$2,892,186	\$2,427,976
Total Operating Rev.	\$134,315,873	\$128,885,535
Total Operating Exp.	\$140,718,188	\$133,037,693
Net From Operations	(6,402,315)	(4,152,158)
Nonoperating Rev.	7,690,030	2,411,099
Nonoperating Exp	1,059,489	1,299,365
Provision for Taxes	0	0
Net Income	\$228,226	(3,040,424)
<b>Other Financial:</b>		
Charity Care Charges	\$4,455,471	\$6,110,314
Bad Debt Charges	\$23,756,842	\$8,811,033
Total Uncompensated Care	\$28,212,313	\$14,921,347
Uncompensated Care as % of Chgs.	5.1%	2.1%
State of Calif. Uncompensated Care	3.1%	3.1%
Fiscal Year Ending	12/31/2005	12/31/2005
Source: OSHPD Financial Disclosure Reports		

The comparison shows that Alvarado had \$2 million lower losses on operations. While licensed for a similar number of beds it had a much lower inpatient volume. However, both had similar total net revenue with Alvarado having a much higher Medicare payer mix and much lower uncompensated care.

TCG used the third valuation method – an Adjusted Net Asset Method. This method values the tangible and intangible assets of the Hospital, deducting the costs of deferred maintenance to bring those assets back into normal working order but not improving the revenue generating ability or reducing the expenses of the facility. This makes the assumption that the purchaser of the Hospital is buying it as a going concern and plans to continue operating the facility as a hospital with no eventual gain from real estate. It also makes the assumption that the purchaser

of the facility will be able to return it to profitability in order to make the investment financially viable to them. The valuation analysis performed by TCG places the value of PVH at approximately \$6.5 million on a going concern basis. This valuation method does not necessarily value the facility at its maximum value to an owner that, based on a review of the information presented in TCG report, may be in the sale of the real property, medical office buildings and equipment separately after five years of operation. Based on the information in TCG report, the assets may be worth at least \$30 million based on the following break down:

Land Value (Per real estate appraisal)	\$20,600,000
Medical Office Buildings (Per real estate appraisal)	\$8,960,000
Equipment Sale (20% of current written down value)	\$6,145,000
Demolition of Buildings (Per Casper Company estimate)	(\$3,169,000)
<b>Total</b>	<b>\$32,536,000</b>

If the assets were sold in this manner and the Hospital closed, the community would lose the benefit of the healthcare services for a minimum of five years. The five year time period is based upon Prime's stated commitment to operate the Hospital for at least five years. Should the current seismic upgrade requirements remain in place under S.B. 1953, it is unlikely that any purchaser of the facility would invest the funds required to bring it up to code, unless they had been able to substantially improve on the profitability of the facility.

## **PARADISE VALLEY HOSPITAL HEALTHCARE SERVICE AREA DESCRIPTION**

### ***Paradise Valley Hospital within the Safety Net***

The County of San Diego and the California Endowment funded a project that produced a report in September of 2006 entitled “San Diego County Healthcare Safety Net Study.” Below are key findings of the study that relate to PVH’s role in the safety net:

- Demand on safety net providers has increased over the past ten years with steady increases in community clinic visits, emergency department visits and hospital discharges;
- Hospital expansion is projected to grow less than demand;
- Gaps in inpatient beds and emergency treatment beds are forecast;
- The south region where PVH is located:
  - Is expected to have the largest percentage average annual growth (1.3%).
  - Is expected to have the largest proportion of Hispanics in 2020 (61%) and California Latinos are nearly twice as likely to be uninsured.
  - Has the largest proportion of uninsured (21%).
  - Has the largest proportion of safety net consumers (41%) compared to San Diego County as a whole (30%).
  - Is projected to have the largest growth of uninsured and Medi-Cal.
  - Had the most patient days by underinsured payers (Medi-Cal, County indigent, other indigent and other payers). Over 50% of patient discharges were underserved compared to 34% for the County.
  - Has the largest projected future need for beds.
  - Is at risk for losing two hospitals.
  - Has a robust network of community clinics.
  - Has the second highest bed occupancy rate at 71%.
  - Has a shortage of physicians.
- San Diego County licensed psychiatric beds have declined 29% since 1995;
- San Diego County emergency departments were on diversion an average of 11% of the time, which was down from 2001, when they were on diversion 31% of the time;
- Over the next twenty years San Diego County healthcare demand is expected to increase:
  - 32% for community clinics

- 37% for hospital beds
- 16% for emergency department beds
- 27% for physicians
- UCSD Medical Center has announced the move of all 385 inpatient beds to a 500 bed hospital on their La Jolla campus by 2030, retaining outpatient services at Hillcrest;
  - In 2004, approximately 14% of UCSD's patients were from the south region and 35% were from the central region.
- PVH is the third largest provider of inpatient services to safety net patients from the central region (18% of the underinsured discharges);
- PVH is the third largest provider of inpatient services to safety net patients from the south region (19% of underinsured discharges);
- UCSD Medical Center, Hillcrest serves:
  - 24% of underinsured patients from the central region.
  - 11% of underinsured patients from the south region.
- Due to the lack of plans for new beds, the central and south regions will be over capacity by 2015 without even considering the plan for the move of UCSD; and
- Results of stakeholder interviews ranked the greatest demand for safety net services as:
  - Primary care
  - Mental health
  - Emergency department services
  - Education and prevention
  - Chronic diseases/diabetes

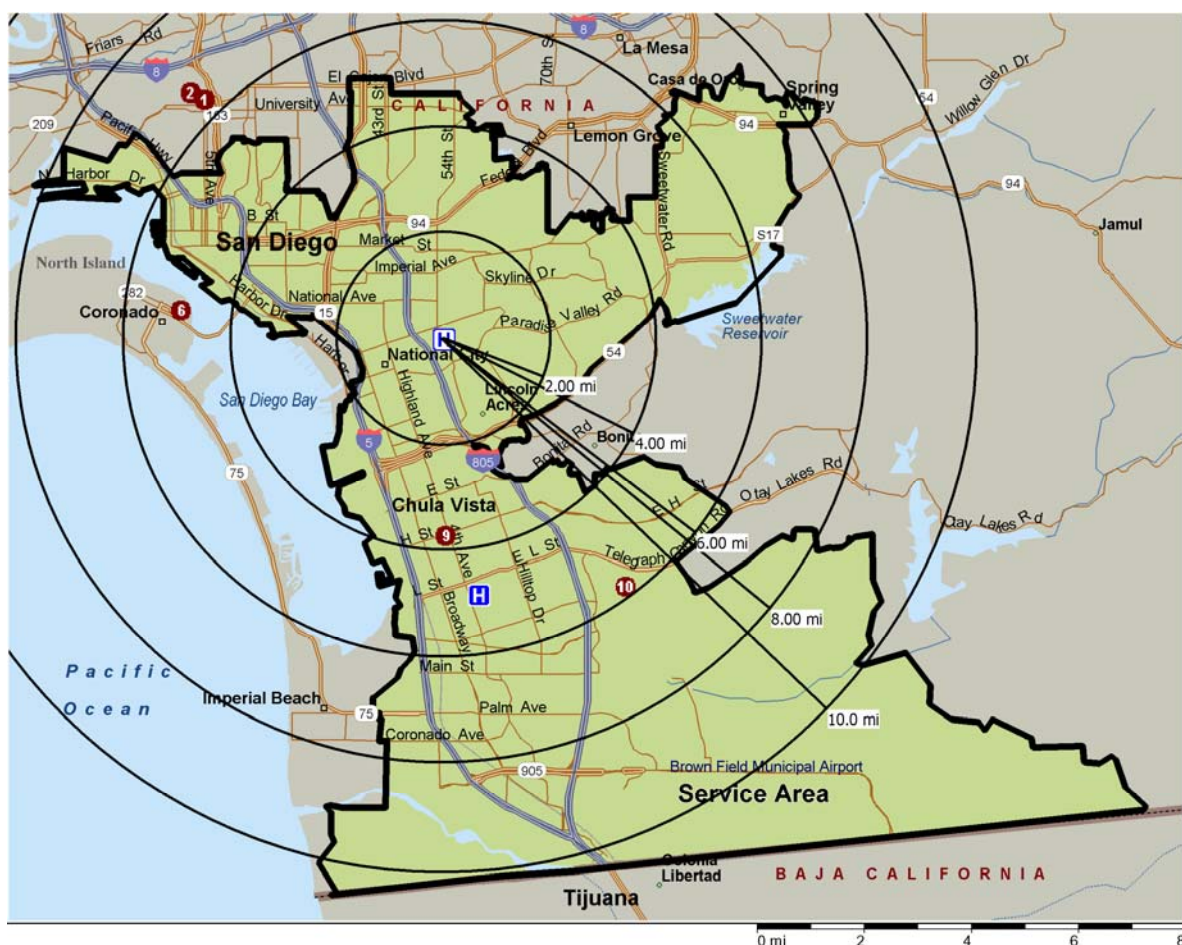
## ***Paradise Valley Health Service Area Definition***

Approximately 81.0% of PVH's discharges come from a combination of 12 area ZIP Codes and outside the US (the majority of which are from Mexico). Patients from outside of the United States, apparently, are a result of a program to attract pregnant women from Mexico in their last stage of pregnancy to the Hospital for delivery. The patient discharges from outside of the United States account for 4.8% which ranks 6<sup>th</sup> to area ZIP Codes in total discharges. The homeless population utilization of PVH represents 2.0% of the Hospital's discharges. Over 50% of PVH's discharges emanate from the top five ZIP Codes in the service area.

<b>Paradise Valley Hospital Patient Origin and Market Share</b>						
<b>ZIP</b>	<b>City</b>	<b>Paradise Valley Hospital</b>	<b>% Discharges</b>	<b>Cum % Discharges</b>	<b>Total Discharges</b>	<b>PVH Market Share %</b>
91950	National City	2,430	18.3%	18.3%	6,794	35.8%
92114	San Diego	1,799	13.6%	31.9%	7,351	24.5%
92113	San Diego	980	7.4%	39.3%	5,250	18.7%
92139	San Diego	933	7.0%	46.3%	3,293	28.3%
91911	San Diego	693	5.2%	51.5%	8,491	8.2%
Outside United States/Mexico		636	4.8%	56.3%	3,958	16.1%
92105	San Diego	537	4.0%	60.4%	7,031	7.6%
92102	San Diego	532	4.0%	64.4%	4,658	11.4%
92154	San Diego	497	3.7%	68.1%	6,606	7.5%
91910	Chula Vista	480	3.6%	71.8%	7,584	6.3%
91977	Spring Valley	421	3.2%	74.9%	5,741	7.3%
92101	San Diego	273	2.1%	77.0%	4,390	6.2%
92173	San Ysidro	272	2.1%	79.0%	3,571	7.6%
No residence (homeless)		259	2.0%	81.0%	17,741	1.5%
All Other ZIPs		2,522	19.0%			
<b>Total Hospital</b>		<b>13,264</b>	<b>100%</b>		<b>92,459</b>	<b>11.6%</b>

## Service Area Map

PVH's service area is shown in the map below. There are 10 other acute hospitals within ten mile radius of PVH with one other hospital within a 4 mile radius, Scripps Mercy Hospital – Chula Vista. Eight of these ten hospitals are located north/northwest of PVH. PVH's service area boundaries span more to the south and southeast. Approximately 81.0% of PVH's total inpatient discharges emanate from within the service area.



Map Key	
<b>H</b>	Paradise Valley Hospital
<b>H</b>	Bayview Behavioral Health
1	Scripps Mercy Hospital
2	UCSD Medical Center
3	Children's Hospital
4	Grossmont Hospital
5	Kaiser San Diego
6	Sharp Coronado
7	Sharp Memorial
8	Alvarado Hospital
9	Scripps Mercy Hosp-Chula Vista
10	Sharp Chula Vista Med Ctr

## ***Demographic Profile***

PVH's service area has a total population of 677,574 (2006 estimate). It is projected to grow by 5.6% over the next five years which is greater to the 4.1% expected growth rate of California.

<b>Paradise Valley Hospital Service Area Population Statistics 2006 &amp; 2011</b>			
	<b>2006</b>	<b>2011</b>	<b>% Change</b>
Total Population	677,574	715,394	5.6%
Households	202,307	213,278	5.4%
Avg. Household Size	3.27	3.28	0.3%
% Female	50.0%		
Source: Claritas, 2006			

The average age of the population in the service area is 33.2 years. For the State of California, it is 33.7. The percentage of adults, age 45-64, is expected to grow at a faster rate than other age cohorts. Meanwhile, the percentage of youth, ages 0-14, and younger adults, ages 15-44, in the service area will decrease by more than 3%. The percentage of seniors is lower than the current statewide average of 12%, and it is expected to increase by 2.5% over the next five years.

<b>Paradise Valley Hospital Service Area Population Age Distribution 2006 &amp; 2011</b>			
	<b>2006</b>	<b>2011</b>	<b>% Change</b>
Age 0-14	25.5%	24.7%	-3.1%
Age 15 - 44	45.2%	43.7%	-3.3%
Age 45 - 64	20.1%	22.1%	10.0%
Age 65+	9.3%	9.5%	2.5%
Female 15 - 44	32.7%	32.9%	0.6%
Average Age	33.2	34.0	2.5%
Source: Claritas 2006			



The Hispanic population is projected to grow at the fastest rate in the service area, increasing to 58.5% of the total service area population by 2011. The only other ethnic group to increase over the five year period is Asian. The White and Black populations are projected to decline as a percentage of the total.

<b>Paradise Valley Hospital Service Area Population Ethnicity 2006 &amp; 2011</b>			
	<b>2006</b>	<b>2011</b>	<b>% Change</b>
White	18.2%	15.8%	-13.2%
Black	9.5%	8.0%	-15.8%
Hispanic	54.9%	58.5%	6.6%
Asian	13.4%	13.7%	2.2%
Other	4.0%	4.0%	0.0%
Source: Claritas			

The service area average household income (aggregate household income divided by total households) is \$53,587, and it is projected to grow by 12.5% in the next five years. This is considerably lower than the State of California's average household income of \$63,000. Approximately 16% of households in the service area are below the federal poverty level (\$15,260 for a family of three in 2006).

<b>Paradise Valley Hospital Service Area Population Household Income Distribution 2006 &amp; 2011</b>			
	<b>2006</b>	<b>2011</b>	<b>% Change</b>
\$0 - \$14,999	15.9%	14.2%	-10.2%
\$15,000 - 24,999	13.6%	12.2%	-10.3%
\$25,000 - 34,999	13.2%	12.2%	-7.7%
\$35,000 - 49,999	16.7%	16.1%	-3.5%
\$50,000 - 74,999	18.8%	18.6%	-0.7%
\$75,000 - 99,999	10.4%	11.2%	7.5%
\$100,000 - 149,999	8.2%	10.5%	28.4%
\$150,000 +	3.3%	4.9%	49.8%
Average HH Income	\$53,587	\$60,278	12.5%
Source: Claritas 2006			

## Area Payer/Insurance Mix

Nearly 21% of the service area population is Medi-Cal eligible. This is slightly higher than the State average of 18%. Percentages of Medi-Cal eligibles for ZIP Codes within the service area ranges from 12% to 32%.

The ZIP Code where the Hospital is located, National City, is very high with 26% of residents being Medi-Cal eligible.

Paradise Valley Hospital Service Area Medi-Cal Eligibles 2006				
ZIP	City	Eligibles	Population	%
91950	National City	13,641	52,247	26.1%
92114	San Diego	14,440	66,440	21.7%
92113	San Diego	16,110	49,854	32.3%
92139	San Diego	4,860	36,414	13.3%
91911	Chula Vista	13,837	83,679	16.5%
92105	San Diego	22,374	73,668	30.4%
92102	San Diego	11,117	47,939	23.2%
92154	San Diego	12,815	79,331	16.2%
91910	Chula Vista	9,632	76,380	12.6%
91977	Spring Valley	9,669	55,457	17.4%
92101	San Diego	3,849	26,981	14.3%
92173	San Ysidro	8,994	29,184	30.8%
<b>Total</b>		<b>141,338</b>	<b>677,574</b>	<b>20.9%</b>
<b>All of California</b>		<b>6,502,157</b>	<b>36,132,147</b>	<b>18.0%</b>

Sources: DHS Website (as of July 2006), Claritas 2006

Twenty-nine percent (29%) of the Medicare eligible population in the service area is enrolled in senior managed care health plans (HMO).

Paradise Valley Hospital Service Area Medicare Eligible and Enrolled in MC Plans				
ZIP	City	Eligibles	Enrolled	Market Penetration
91950	National City	6,733	1,686	25.0%
92114	San Diego	7,952	2,143	26.9%
92113	San Diego	3,876	1,021	26.3%
92139	San Diego	3,779	950	25.1%
91911	Chula Vista	10,502	3,818	36.4%
92105	San Diego	5,311	1,522	28.7%
92102	San Diego	3,548	1,040	29.3%
92154	San Diego	7,973	2,035	25.5%
91910	Chula Vista	9,577	3,592	37.5%
91977	Spring Valley	6,237	2,466	39.5%
92101	San Diego	4,173	717	17.2%
92173	San Ysidro	3,710	522	14.1%
<b>Total</b>		<b>73,371</b>	<b>21,512</b>	<b>29.3%</b>

Sources: CMS (as of March, 2004)

## Selected Health Indicators<sup>1</sup>

A review of health status indicators for San Diego County (deaths, diseases and births) supports the following conclusions:

- The area faces some challenges related to obstetrics and prenatal care (Refer to Table A);
  - The infant mortality rate (4.9 per 1,000 births) is higher than the national goal (4.5) but lower than the California rate (5.3).
  - The percentage of low birth weight infants (6.2%) is lower than the State rate (6.6%) and but higher than the national goal (5.0%).
- The overall mortality rate is lower than the California mortality rate (Refer to Table B). Chronic diseases are the main cause of death with heart disease and cancer accounting for almost half the mortality rate; and
- Chlamydia is the most frequently reported disease in the county and exceeds the incidence rate for California. The rates of incidence of AIDS and TB are both significantly higher than the state rate (Refer to Table C).

The following tables are based on California Department of Health Services reports regarding San Diego County:

Table A: Natality Statistics 2006			
Low Birth Weight Infants	6.2%	6.6%	5.0%
Late or No Prenatal Care	12.3%	13.0%	10.0%
Birth Rate to Adolescents (per 1,000 births)	36.4	39.2	N/A
Infant Mortality Rate (per 1,000 births)	4.9	5.3	4.5

---

<sup>1</sup> California Department of Health Services, The State of Health Insurance in California, UCLA Center for Health Policy Research

<b>Table B: Mortality Statistics, 2006</b> <b>Rate per 100,000 Population</b>			
<b>Selected Cause</b>	<b>San Diego County</b>	<b>California</b>	<b>National Goal</b>
Cancer	155.3	164.1	158.5
Heart Disease	138.8	164.7	162.0
Cerebrovascular Disease	49.1	52.4	50.0
Unintentional Injuries	27.4	29.3	17.1
Diabetes	16.9	21.3	N/A
Suicide	10.5	9.4	4.8
Drug-Related Deaths	10.3	10.0	1.2
All Causes	667.0	704.6	N/A

<b>Table C: Morbidity Statistics, 2006</b> <b>Incidence Rate per 100,000 Population</b>			
<b>Health Status Indicator</b>	<b>San Diego County</b>	<b>California</b>	<b>National Goal</b>
Hepatitis C	0.01	0.13	1.0
AIDS	16.98	13.72	1.0
Tuberculosis	10.73	8.71	1.0
Chlamydia	351.96	324.31	N/A

## Hospital Supply, Demand and Market Share

There are 11 general acute care hospitals within 12 miles of the Hospital. Additional hospitals beyond this geographic region also have a significant market share of area patients because of their specialized programs, referral patterns and reputation.

An analysis of the services offered by PVH comparing them to services offered by other providers is shown below. The hospitals shown below were the primary facilities analyzed to determine area hospital capacity by service. In general, the service area currently has sufficient general acute care beds based upon licensed bed capacity and occupancy rates.

Area Hospitals							
Hospital	Ownership/Affiliation	City	Licensed Beds	Days	Occupied Beds	Percent Occupied	Miles from PVH
Paradise Valley Hospital	Adventist Health/NFP	National City	301	75,120	205.8	68.4%	-
Promise Hospital	Promise Healthcare	San Diego	100	23,591	64.6	64.6%	4.6
Scripps Memorial - Chula Vista	Scripps Health/NFP	Chula Vista	173	44,650	122.3	70.7%	5.6
Sharp Coronado	Sharp Healthcare Corp/NFP	Coronado	204	51,652	141.5	69.4%	6.5
Sharp Chula Vista Med Ctr	San Diego Hosp. Assoc./NFP	Chula Vista	330	96,136	263.4	79.8%	7.0
Grossmont Hospital	San Diego Hosp. Assoc./NFP	La Mesa	481	120,453	330.0	68.6%	9.9
Sharp Memorial Community Hosp	San Diego Hosp. Assoc./NFP	San Diego	566	148,002	405.5	71.6%	10.4
Sharp Mary Birch Women's Hosp	Sharp Healthcare/NFP	San Diego	168	49,089	134.5	80.1%	10.6
Children's Hosp of San Diego	Children's Hosp San Diego/NFP	San Diego	313	80,941	221.8	70.8%	10.7
Scripps Mercy Hospital	Scripps Health/NFP	San Diego	700	138,376	379.1	54.2%	10.7
UCSD Medical Center	Regents of UC/NFP	San Diego	540	127,305	348.8	64.6%	11.1
Alvarado Hospital Medical Center	Plymouth Health/FP	San Diego	305	56,590	155.0	50.8%	12.3
<b>Other Hospitals:</b>							
Kaiser - San Diego	Kaiser Foundation	San Diego	392	109,115	298.9	76.3%	9.6
San Diego County Psych. Hosp	County/NFP Psychiatric	San Diego	431	68,654	188.1	43.6%	10.7
Alvarado Parkway Institute	Helix Healthcare/FP Psych.	La Mesa	66	21,468	58.8	89.1%	11.9
Scripps Health - La Jolla	Scripps Health - La Jolla/NFP	La Jolla	422	96,620	264.7	62.7%	20.6
Aurora San Diego	Signature Health Care/FP Psych.	San Diego	80	23,131	63.4	79.2%	23.7
Scripps Memorial Encinitas	Scripps Health/NFP	San Diego	138	38,625	105.8	76.7%	28.5

Source: OSHPD Disclosure Reports (most recent closed fiscal year), Mapquest.

As indicated in the table below, the following are key hospital benchmarks for the service area:

- There were more than 70,000 total discharges (2005);
- Sharp Chula Vista Medical Center has the largest market share, as determined by the percentage of inpatient discharges, with 14.7%;
- PVH had an average of 14% a market share over the past three years; and

- PVH is in a very competitive market with six other facilities in combination accounting for about 70% of the market share.

Service Area Hospital Market Share 2003-2005						
Hospital	Year 2003		Year 2004		Year 2005	
	Dis-charges	Mkt Share	Dis-charges	Mkt Share	Dis-charges	Mkt Share
Sharp Chula Vista Medical Center	9,709	13.7%	10,089	14.2%	10,383	14.7%
Paradise Valley Hospital	9,729	13.7%	10,047	14.2%	9,847	13.9%
Scripps Mercy Hospital	7,687	10.8%	7,345	10.4%	7,840	11.1%
Scripps Mercy Hospital - Chula Vista	7,665	10.8%	7,401	10.4%	7,233	10.2%
Kaiser Fnd Hosp - San Diego	7,556	10.6%	7,157	10.1%	7,305	10.3%
Univ. of Calif - San Diego MC	6,197	8.7%	6,794	9.6%	6,509	9.2%
Children's Hospital - San Diego	3,228	4.5%	3,297	4.7%	3,397	4.8%
Grossmont Hospital	2,929	4.1%	3,118	4.4%	3,421	4.8%
Sharp Mary Birch Hospital For Women	2,939	4.1%	3,012	4.3%	3,170	4.5%
Sharp Memorial Hospital	2,938	4.1%	3,082	4.4%	2,799	4.0%
Promise Hospital	2,121	3.0%	2,019	2.9%	1,354	1.9%
Alvarado Hospital MC	1,873	2.6%	1,643	2.3%	1,731	2.4%
Scripps Memorial Hospital - La Jolla	1,372	1.9%	1,312	1.9%	1,232	1.7%
Sharp Memorial Hospital D/P APH	1,120	1.6%	1,108	1.6%	1,053	1.5%
Alvarado Parkway Institute B.H.S.	559	0.8%	615	0.9%	634	0.9%
Sharp Coronado Hospital And Healthcare Center	464	0.7%	486	0.7%	474	0.7%
<All others>	2,947	4.1%	2,312	3.3%	2,378	3.4%
<b>Total</b>	<b>71,033</b>	<b>100.0%</b>	<b>70,837</b>	<b>100.0%</b>	<b>70,760</b>	<b>100.0%</b>
Source: OSHPD Patient Discharge Study, 2003-2005 (excludes normal newborn DRG 391)						

Service Area Hospital 2005 Market Share by Payer (2005)												
Hospital	Total Discharges	Total	Traditional Medicare	Managed Medicare	Commercial Managed Care	Traditional Medi-Cal	Managed Medi-Cal	Private Insurance	PPO-EPO-POS	County Indigent	Workers Compensation	Other
Sharp Chula Vista Medical Center	10,383	14.7%	18.8%	23.4%	12.5%	12.5%	17.7%	3.7%	17.9%	12.0%	4.9%	5.5%
Paradise Valley Hospital	9,847	13.9%	19.2%	0.9%	5.9%	21.0%	13.6%	8.4%	5.3%	15.0%	1.6%	16.7%
Scripps Mercy Hospital	7,840	11.1%	12.6%	7.2%	4.7%	13.0%	9.3%	34.4%	13.3%	15.2%	27.9%	12.3%
Kaiser Fnd Hosp- San Diego	7,305	10.3%	0.4%	39.7%	35.7%	0.5%	4.6%	0.1%	0.0%	0.0%	4.1%	1.4%
Scripps Mercy Hospital - Chula Vista	7,233	10.2%	16.2%	2.3%	3.9%	10.5%	13.8%	25.0%	10.2%	11.0%	2.7%	9.6%
Univ of Calif - San Diego MC	6,509	9.2%	6.0%	2.3%	3.7%	17.3%	10.3%	1.7%	6.8%	24.1%	7.2%	11.8%
Grossmont Hospital	3,421	4.8%	4.9%	6.5%	3.9%	4.7%	7.5%	2.8%	6.9%	8.5%	2.7%	2.1%
Children's Hospital - San Diego	3,397	4.8%	0.1%	0.0%	4.6%	2.9%	8.1%	3.7%	4.0%	0.0%	0.0%	23.1%
Sharp Mary Birch Hospital For Women	3,170	4.5%	0.1%	0.1%	9.0%	7.2%	10.2%	2.3%	9.1%	0.1%	0.0%	1.7%
Sharp Memorial Hospital	2,799	4.0%	3.9%	9.6%	5.6%	2.0%	2.1%	1.1%	3.9%	3.9%	21.3%	1.0%
Alvarado Hospital Medical Center	1,731	2.4%	4.7%	1.8%	0.6%	1.9%	0.9%	0.3%	4.4%	0.0%	1.3%	2.7%
Promise Hospital	1,354	1.9%	2.6%	0.0%	0.0%	3.4%	0.4%	2.2%	0.1%	0.0%	0.0%	4.2%
Scripps Memorial Hospital - La Jolla	1,232	1.7%	1.8%	2.0%	2.5%	0.4%	0.2%	3.1%	5.7%	1.0%	18.9%	0.7%
Sharp Memorial Hospital D/P APH	1,053	1.5%	1.4%	0.3%	3.8%	0.6%	0.9%	1.3%	1.8%	0.0%	1.1%	1.4%
Alvarado Parkway Institute B.H.S.	634	0.9%	2.3%	0.0%	0.3%	0.1%	0.0%	0.0%	0.5%	0.0%	0.0%	2.0%
Sharp Coronado Hospital and HC	474	0.7%	0.8%	1.6%	0.8%	0.4%	0.2%	0.9%	1.0%	0.7%	1.4%	0.2%
<All others>	2,378	3.4%	4.3%	2.3%	2.5%	1.6%	0.3%	9.1%	9.2%	8.4%	4.9%	3.7%
<b>Total</b>	<b>70,760</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Discharges			17,372	6,417	11,994	15,356	4,427	783	3,762	2,063	555	8,031
% of Total Discharges			24.6%	9.1%	17.0%	21.7%	6.3%	1.1%	5.3%	2.9%	0.8%	11.3%

Source: OSHPD 2005



Denotes market share leader

Market share for acute hospitals is calculated by using the percentage of acute discharges from a hospital within the service area.

- The largest category of inpatient discharges by payer is traditional Medicare with over 17,000 discharges (24.6%). PVH is the market share leader in this category with 19.2% market share;
- PVH leads the service area in traditional Medi-Cal with 21.0% of the discharges;
- PVH has about 13.6% of managed Medi-Cal discharges; and
- PVH has a small market share of managed Medicare patients and Workers compensation payer categories.

Paradise Valley Hospital Service Line Inpatient Market Share for 2005										
Service Line	No. of Discharges	Hospital								
		Sharp Chula Vista Medical Center	Paradise Valley Hospital	Scripps Mercy Hospital	Kaiser Fnd Hosp - San Diego	Scripps Mercy Hospital - Chula Vista	Univ of Calif- San Diego MC	Grossmont Hospital	Children's Hospital - San Diego	<All others>
<b>Total Discharges</b>	<b>70,760</b>	<b>10,383</b>	<b>9,847</b>	<b>7,840</b>	<b>7,305</b>	<b>7,233</b>	<b>6,509</b>	<b>3,421</b>	<b>3,397</b>	<b>14,825</b>
<b>Total Market Share</b>		<b>14.7%</b>	<b>13.9%</b>	<b>11.1%</b>	<b>10.3%</b>	<b>10.2%</b>	<b>9.2%</b>	<b>4.8%</b>	<b>4.8%</b>	<b>21.0%</b>
Complicated Deliveries	4,414	17.8%	9.4%	8.5%	13.1%	12.1%	11.3%	5.5%	0.0%	22.4%
Normal Deliveries	7,207	17.8%	11.6%	9.8%	11.9%	12.9%	10.2%	5.6%	0.0%	20.1%
High-Risk Newborns	3,445	9.5%	5.3%	13.8%	13.7%	9.4%	23.2%	4.4%	5.6%	15.1%
Oncology	1,983	22.2%	6.1%	8.6%	11.4%	10.6%	10.6%	4.5%	6.0%	20.0%
Other OB	1,172	12.9%	13.4%	9.5%	8.6%	11.3%	15.0%	4.6%	0.0%	24.7%
Pediatrics	1,613	0.2%	15.0%	2.4%	9.5%	0.2%	1.2%	2.8%	67.0%	1.8%
Psychiatry	6,464	0.3%	39.9%	8.2%	0.5%	0.3%	5.4%	2.5%	0.1%	42.8%
Rehabilitation	654	3.4%	38.2%	0.0%	0.0%	0.0%	0.0%	7.8%	1.1%	49.5%
Substance Abuse	553	1.8%	8.3%	13.6%	4.7%	2.4%	4.0%	2.4%	0.2%	62.7%
Burn	54	0.0%	0.0%	1.9%	1.9%	1.9%	88.9%	1.9%	1.9%	1.9%
Chemotherapy	415	15.2%	0.2%	13.7%	5.3%	3.1%	11.6%	1.9%	36.9%	12.0%
Medical - Cardiovascular	7,996	20.8%	16.3%	9.2%	12.5%	16.4%	5.9%	5.5%	1.1%	12.4%
Medical - ENT	246	15.0%	12.6%	18.3%	6.9%	10.6%	10.6%	7.3%	1.2%	17.5%
Medical - Genitourinary	1,490	18.1%	9.3%	10.7%	9.3%	16.2%	7.0%	5.8%	5.5%	18.1%
Medical - GI	5,731	17.0%	12.5%	11.3%	13.7%	14.2%	8.0%	5.8%	2.3%	15.1%
Medical - Gynecology	139	13.7%	12.9%	11.5%	15.1%	15.8%	9.4%	4.3%	6.5%	10.8%
Medical - Ophthalmology	61	11.5%	14.8%	14.8%	3.3%	11.5%	9.8%	3.3%	8.2%	23.0%
Medical - Other	4,112	13.4%	12.6%	15.9%	11.2%	10.4%	12.2%	4.3%	4.1%	15.9%
Medical - Respiratory	4,638	17.0%	16.3%	10.3%	12.2%	15.9%	6.2%	4.4%	1.6%	16.1%
Medical - Neurology	1,939	13.6%	9.6%	15.3%	9.0%	10.4%	16.3%	5.9%	6.2%	13.8%
Orthopedic	4,842	15.7%	5.9%	14.8%	10.6%	6.5%	7.7%	5.9%	9.5%	23.3%
Plastic Surgery	451	10.9%	30.4%	13.3%	6.2%	6.7%	7.5%	4.0%	4.9%	16.2%
Surgical - Cardiovascular	2,922	25.1%	7.9%	14.6%	3.2%	4.8%	6.1%	5.3%	3.0%	30.0%
Surgical - ENT	433	8.5%	8.3%	17.6%	7.2%	6.5%	14.8%	1.8%	20.1%	15.2%
Surgical - Genitourinary	1,473	15.4%	8.1%	11.7%	15.8%	10.0%	10.1%	5.8%	3.4%	19.7%
Surgical - GI	2,760	14.2%	9.0%	13.7%	12.6%	12.9%	7.5%	5.1%	10.5%	14.5%
Surgical - Gynecology	1,108	16.1%	9.5%	9.5%	19.8%	9.6%	6.6%	4.4%	1.4%	23.3%
Surgical - Neuro	558	17.6%	7.9%	12.0%	13.3%	5.7%	10.4%	5.4%	11.6%	16.1%
Surgical - Ophthalmology	40	7.5%	5.0%	15.0%	5.0%	0.0%	20.0%	0.0%	12.5%	35.0%
Surgical - Other	1,201	13.9%	8.1%	15.5%	8.9%	6.6%	10.8%	2.6%	5.2%	28.5%
All Other	646	8.5%	5.1%	10.7%	4.2%	5.4%	21.1%	2.0%	1.9%	41.2%

Source: OSHPD 2005 (excludes normal newborn DRG 391)

- PVH's overall market share for this area is 13.9%, a close second to Sharp Chula Vista MC with 14.7%.
- PVH is the market share leader for psychiatry (39.9%), rehabilitation (38.2%) and plastic surgery (30.4%).
- PVH shares the highest market share for medical-ophthalmology with Scripps Mercy, both draw 14.8%.
- The highest number of service line discharges was in medical-cardiovascular medicine with 7,995 discharges. PVH's relative market share was 16.3% in this service line.

PVH has an array of services typical of a community hospital. The majority of services provided by PVH are also provided by other providers in or near the service area. However, PVH is unique in the service area in providing psychiatric and rehabilitation services.



The following grid shows a comparison of local hospitals and the services they provide as compared to the services of PVH:

Service Comparison														
Program/Service	Paradise Valley Hospital	Promise Hospital	Scripps Mem - Chula Vista	Sharp Coronado	Sharp Chula Vista Med Ctr	Grossmont Hospital	Sharp Memorial Comm. Hosp	Sharp Birch Women's Hosp	Children's of San Diego	Scripps Mercy Hospital	UCSD Medical Center	Alvarado Hospital Med Ctr		
Adult Day Care Program		Did Not Report	Included in Scripps Mercy	✓						✓				
Alcohol-Drug Abuse or Dependency Inpatient							✓							
Alcohol-Drug Abuse or Dependency Outpatient	✓						✓							
Birthing Room-LDR Room-LDRP Room	✓				✓	✓		✓		✓	✓			
Breast Cancer Screening-Mammography	✓				✓	✓	✓					✓		
Cardiac Intensive Care Servives								✓				✓	✓	✓
Cardiac Catheterization Laboratory	✓					✓	✓	✓				✓	✓	
Emergency Department	✓					✓	✓	✓			✓	✓	✓	✓
Trauma Center (Certified)									✓		✓	✓	✓	
Pain Management							✓	✓	✓		✓	✓	✓	✓
Extracorporeal Shock Wave Lithotripter (ESWL)							✓	✓				✓		
Hemodialysis	✓						✓	✓			✓		✓	✓
HIV-AIDS Services												✓	✓	
Home Health	✓								✓		✓			✓
Medical Surgical Intensive Care Services	✓					✓	✓	✓	✓			✓	✓	✓
Neonatal Intensive Care Services	✓						✓	✓		✓	✓	✓	✓	
Neurological Services	✓					✓		✓	✓		✓	✓	✓	✓
Obstetrics Services	✓						✓	✓		✓		✓	✓	
Occupational Health Services	✓					✓	✓	✓	✓		✓	✓	✓	✓
Oncology Services						✓	✓	✓	✓		✓	✓	✓	✓
Orthopedic Services						✓	✓	✓	✓		✓	✓	✓	✓
Outpatient Surgery	✓					✓	✓	✓	✓	✓	✓	✓	✓	✓
Pediatric Intensive Care Services											✓			
Pediatric Medical Surgical	✓							✓			✓			
Physical Rehabilitation Inpatient Services	✓							✓	✓		✓			✓
Physical Rehabilitation Outpatient Services	✓					✓	✓	✓	✓		✓	✓	✓	✓
Psychiatric Care	✓							✓	✓			✓	✓	
Psychiatric - Children	✓								✓		✓		✓	
Psychiatric - Emergency	✓							✓	✓		✓	✓	✓	
Psychiatric - Geriatric	✓							✓	✓			✓	✓	
Psychiatric - Outpatient	✓								✓		✓	✓		
Psychiatric - Partial Hospitalization	✓							✓	✓			✓		
CT Scanner	✓					✓	✓	✓	✓		✓	✓	✓	✓
Diagnoatic Radioisotope Facility	✓						✓	✓	✓		✓	✓		✓
Magnetic Resonance Imaging (MRI)	✓						✓	✓			✓	✓	✓	✓
CT Scanner - 64 Slice	✓								✓		✓			
Positron emission tomography scanner (PET)							✓	✓						
Single Photon Emiss. Computerized Tomog.							✓	✓				✓	✓	
Ultrasound	✓					✓	✓	✓	✓	✓	✓	✓	✓	✓
Transplant Services									✓		✓	✓	✓	
Women's Health Center	✓					✓	✓	✓		✓			✓	✓
Wound Management	✓					✓	✓	✓	✓			✓	✓	✓
Source: American Hospital Association Guide - 2006 and 2007. Individual Disclosure Reports														

Source: American Hospital Association Guide - 2006 and 2007, Individual Disclosure Reports

## Medical/Surgical Beds

Including PVH and the ten hospitals within 12 miles of PVH, there are a total of 1,598 licensed medical/surgical beds available. Of the 1,598 licensed beds an average of 62.4% are occupied. Therefore, excluding PVH, the service area has 588 available beds.

Medical/Surgical Beds					
Hospital	Miles from PVH	Discharges	Patient Days	Licensed Beds	
				Number	Occupancy
Paradise Valley Hospital	-	5,283	25,836	82	86.3%
Promise Hospital	4.6	1,290	8,660	52	45.6%
Scripps Memorial - Chula Vista	5.6	4,446	20,365	72	77.5%
Sharp Coronado	6.5	1,890	7,120	36	54.2%
Sharp Chula Vista Med Ctr	7.0	9,342	48,478	165	80.5%
Grossmont Hospital	9.9	17,340	70,546	252	76.7%
Sharp Memorial Community Hosp	10.4	8,065	32,454	129	68.9%
Sharp Mary Birch Women's Hosp	10.6	1,405	4,382	18	66.7%
Scripps Mercy Hospital	10.7	15,592	67,666	361	51.4%
UCSD Medical Center	11.1	11,499	56,874	270	57.7%
Alvarado Hospital Medical Center	12.3	2,617	21,790	161	37.1%
<b>Total</b>		<b>67,750</b>	<b>364,171</b>	<b>1,598</b>	<b>62.4%</b>

Source: OSHPD Disclosure Reports (based on each hospitals most recent closed fiscal year).

## Intensive Care/Coronary Care Beds

There are nine hospitals in addition to PVH with medical/surgical ICU (intensive care/coronary care) services representing a total of 283 beds that are 70.4% occupied. Excluding PVH there are, on average 80 available medical/surgical ICU beds within 12.3 miles of PVH. PVH has 15 licensed med/surg ICU beds that are 74.0% occupied, with an average daily census of 11 patients.

Adult Medical/Surgical ICU				
Hospital	Miles from PVH	Licensed Beds	Patient Days	Occupancy
Paradise Valley Hospital	-	15	4,049	74.0%
Promise Hospital	4.6	5	516	28.3%
Scripps Memorial - Chula Vista	5.6	24	7,469	85.3%
Sharp Coronado	6.5	7	1,069	41.8%
Sharp Chula Vista Med Ctr	7.0	39	8,823	62.0%
Grossmont Hospital	9.9	51	9,965	53.5%
Sharp Memorial Community Hosp	10.4	35	10,941	85.6%
Scripps Mercy Hospital	10.7	56	15,039	73.6%
UCSD Medical Center	11.1	39	10,435	73.3%
Alvarado Hospital Medical Center	12.3	12	4,379	100.0%
<b>Total</b>		<b>283</b>	<b>72,685</b>	<b>70.4%</b>

Source: OSHPD Disclosure Reports (based on each hospitals most recent closed fiscal year).

## Definitive Observation Beds

Definitive observation units are a level of care lower than intensive care (ICU) but higher than a medical/surgical unit. They are monitored beds but at generally lower nurse – staffing levels than ICUs. PVH has a 36 bed definitive observation unit at 33% occupancy.

Definitive Observation Unit				
Hospital	Miles from PVH	Licensed Beds	Patient Days	Occupancy
Paradise Valley Hospital	-	36	4,355	33.1%
Scripps Memorial - Chula Vista	5.6	47	11,599	67.6%
Sharp Memorial Community Hosp	10.4	137	33,707	67.4%
Scripps Mercy Hospital	10.7	93	26,204	77.2%
UCSD Medical Center	11.1	56	14,280	69.9%
Alvarado Hospital Medical Center	12.3	52	16,321	86.0%
<b>Total</b>		<b>421</b>	<b>106,466</b>	<b>69.3%</b>

Source: OSHPD Disclosure Reports (based on each hospitals most recent closed fiscal year).

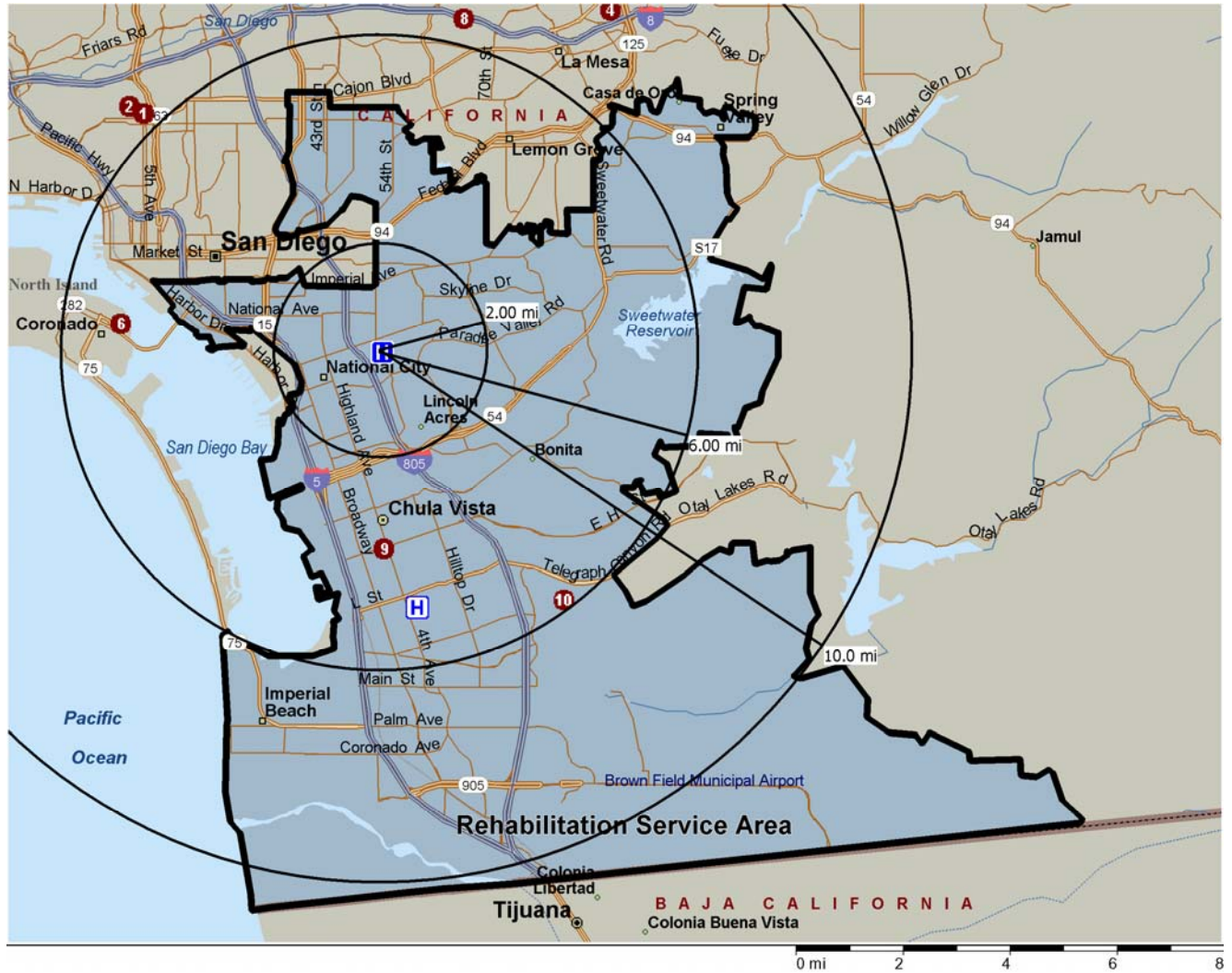
## Service Area Definition for Rehabilitation

Approximately 77.0% of PVH's rehabilitation discharges come from 11 ZIP Codes. Over half of rehabilitation discharges come from the top five ZIP Codes in the service area defined below.

Paradise Valley Hospital						
Market Share for Rehabilitation Services						
ZIP	City	PVH Discharges	% of Discharges	Cum % of Discharges	Total Discharges	PVH Market Share %
91950	National City	51	16%	16%	68	75%
91910	Chula Vista	24	7%	23%	60	40%
92114	San Diego	25	8%	30%	77	32%
91911	Chula Vista	32	10%	40%	78	41%
92154	San Diego	29	9%	49%	61	48%
92139	San Diego	29	9%	58%	44	66%
92173	San Ysidro	20	6%	64%	27	74%
92113	San Diego	16	5%	69%	44	36%
91902	San Diego	11	3%	72%	24	46%
91932	Imperial Beach	7	2%	74%	23	30%
91977	Spring Valley	8	2%	77%	43	19%
All Other ZIPs		77	23%	100%		
<b>Total</b>		<b>329</b>	<b>100%</b>			

## Service Area Map for Rehabilitation Services

PVH's rehabilitation service area is shown in the map below.



Map Key	
<b>H</b>	Paradise Valley Hospital
<b>H</b>	Bayview Behavioral Health
1	Scripps Mercy Hospital
2	UCSD Medical Center
3	Children's Hospital
4	Grossmont Hospital
5	Kaiser San Diego
6	Sharp Coronado
7	Sharp Memorial
8	Alvarado Hospital
9	Scripps Mercy Hosp-Chula Vista
10	Sharp Chula Vista Med Ctr

In the local area, there are four inpatient rehabilitation programs in addition to the one at PVH. These four rehabilitation programs have a total of 230 beds, and they are only 52% occupied.

Service Area Inpatient Rehabilitation Programs				
Hospital	Miles from PVH	Licensed Beds	Patient Days	Occupancy
Paradise Valley Hospital	-	22	5,624	70.0%
Grossmont Hospital	9.9	30	8,577	78.3%
Sharp Memorial Community Hosp	10.4	40	6,984	47.8%
Continental Rehab Hospital of SD	10.7	110	20,717	51.6%
Alvarado Hospital Medical Center	12.3	50	5,970	32.7%
<b>Total</b>		<b>252</b>	<b>47,872</b>	<b>52.0%</b>

Source: OSHPD Disclosure Reports (based on each hospitals most recent closed fiscal year).

## Service Area Payer Mix for Rehabilitation

PVH's rehabilitation service area payer mix is primarily dominated by traditional Medicare that accounts for 52.5% of the total discharges. PVH is the leader with 61.5% of traditional Medicare discharges. PVH also has the largest percentage of traditional Medi-Cal discharges with 52.4% of the total traditional Medi-Cal rehabilitation discharges in the service area.

Paradise Valley Hospital Rehabilitation Service Area												
Rehabilitation Service Line Payer Mix												
Hospital	Total Discharges	Total	Traditional Medicare	Managed Medicare	Commercial Managed Care	Traditional MediCal	Managed MediCal	Private Insurance	PPO-EPO-POS	County Indigent	Workers Compensation	Other
Paradise Valley Hospital	252	45.9%	61.5%	0.0%	16.0%	52.4%	33.3%	0.0%	8.0%	76.9%	13.3%	46.2%
Alvarado Hospital MC	63	11.5%	12.2%	0.0%	0.0%	11.1%	0.0%	0.0%	40.0%	0.0%	6.7%	25.6%
Sharp Memorial Hospital	54	9.8%	4.2%	14.9%	38.0%	7.9%	50.0%	0.0%	4.0%	15.4%	33.3%	0.0%
Sharp Cabrillo Hospital	51	9.3%	4.5%	40.4%	14.0%	9.5%	0.0%	0.0%	4.0%	0.0%	13.3%	7.7%
Grossmont Hospital	42	7.7%	6.9%	21.3%	12.0%	3.2%	16.7%	0.0%	12.0%	0.0%	0.0%	0.0%
Sharp Chula Vista MC	25	4.6%	3.5%	19.1%	2.0%	6.3%	0.0%	0.0%	4.0%	0.0%	0.0%	0.0%
All Other	62	11.3%	7.3%	4.3%	18.0%	9.5%	0.0%	100.0%	28.0%	7.7%	33.3%	20.5%
<b>Total</b>	<b>549</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Discharges	549		288	47	50	63	6	3	25	13	15	39
% of Total Discharges			52.5%	8.6%	9.1%	11.5%	1.1%	0.5%	4.6%	2.4%	2.7%	7.1%

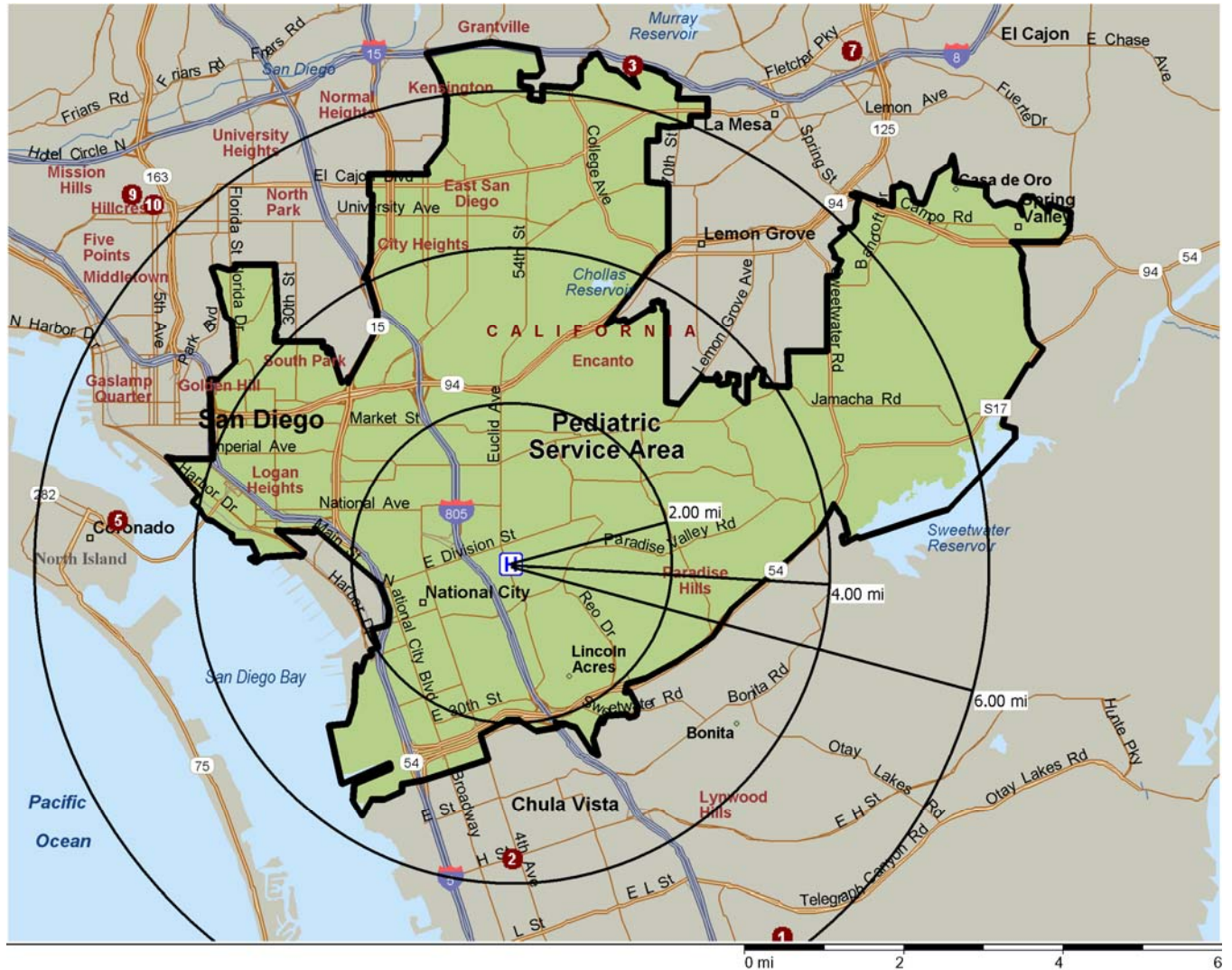
## Service Area Definition for Pediatrics



Approximately 70% of PVH's pediatric discharges come from eight ZIP Codes. PVH's strongest market share position for pediatrics is in ZIP Code 91950 with 36%.

Paradise Valley Hospital						
Patient Origin Market Share for Pediatrics						
ZIP	City	PVH Discharges	% of Discharges	Cum % of Discharges	Total Discharges	Market Share %
92114	San Diego	50	15%	15%	199	25%
91950	National City	61	19%	34%	171	36%
92113	San Diego	29	9%	43%	161	18%
92105	San Diego	31	10%	52%	202	15%
92139	San Diego	22	7%	59%	73	30%
92102	San Diego	14	4%	63%	118	12%
91977	Spring Valley	14	4%	68%	153	9%
92115	San Diego	8	2%	70%	96	8%
All Other ZIPs		97	30%	100%		
<b>Total</b>		<b>326</b>	<b>100%</b>			

## Service Area Map for Pediatrics

PVH's pediatrics service area is shown in the map below.



Map Key	
	Paradise Valley Hospital
	Bayview Behavioral Health Campus
1	Sharp Chula Vista Medical Center
2	Scripps Mercy Hospital-Chula Vista
3	Alvarado Hospital
4	Sharp Memorial
5	Sharp Coronado
6	Kaiser San Diego
7	Grossmont Hospital
8	Children's Hospital
9	UCSD Medical Center
10	Scripps Mercy Hospital

There are two large acute pediatric units in the local area. Children's Hospital of San Diego is



the area market leader for pediatric services. On average, PVH has only 2.2 pediatric inpatients per day. Children's Hospital of San Diego is licensed for 142 pediatric beds with an average of with occupancy of 61%. Hence, there is substantial available pediatric beds in the area.

Pediatric Acute Licensed Units				
Hospital	Miles from PVH	Licensed Beds	Patient Days	Occupancy
Paradise Valley Hospital	-	10	783	21.5%
Children's Hosp of San Diego	10.7	142	31,605	61.0%
Scripps Mercy Hospital	10.7	38	319	2.3%
<b>Total</b>		<b>190</b>	<b>32,707</b>	<b>47.2%</b>

Source: OSHPD Disclosure Reports (based on each hospitals most recent closed fiscal year).

## Service Area Market Share Payer for Pediatrics

PVH's payer mix for pediatric services is primarily dominated by managed Medi-Cal that accounts for over 50% of the total area discharges. Children's Hospital of San Diego is dominant across all payer groups.

Service Area Pediatrics Service Line Payer Mix										
Hospital	Total Discharges	Total	Traditional Medicare	Commercial Managed Care	Traditional MediCal	Managed MediCal	Private Insurance	PPO-EPO-POS	County Indigent	Other
Children's Hospital - San Diego	754	64.3%	0.0%	52.1%	60.6%	50.7%	75.0%	66.7%	0.0%	92.4%
Paradise Valley Hospital	229	19.5%	100.0%	10.1%	25.5%	36.6%	12.5%	8.3%	0.0%	2.0%
Kaiser Fnd Hosp - San Diego	89	7.6%	0.0%	31.8%	2.0%	2.8%	0.0%	0.0%	0.0%	1.7%
Grossmont Hospital	44	3.8%	0.0%	2.3%	4.4%	6.2%	0.0%	5.6%	100.0%	1.0%
Scripps Mercy Hospital	30	2.6%	0.0%	1.4%	4.8%	2.8%	12.5%	2.8%	0.0%	1.0%
All Other	27	2.3%	0.0%	2.3%	2.8%	0.8%	0.0%	16.7%	0.0%	2.0%
<b>Total</b>	<b>1,173</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Discharges	1,173		3	217	251	355	8	36	1	302
% of Total Discharges			0.3%	18.5%	21.4%	30.3%	0.7%	3.1%	0.1%	25.7%

## Service Area Definition for Obstetrical Services

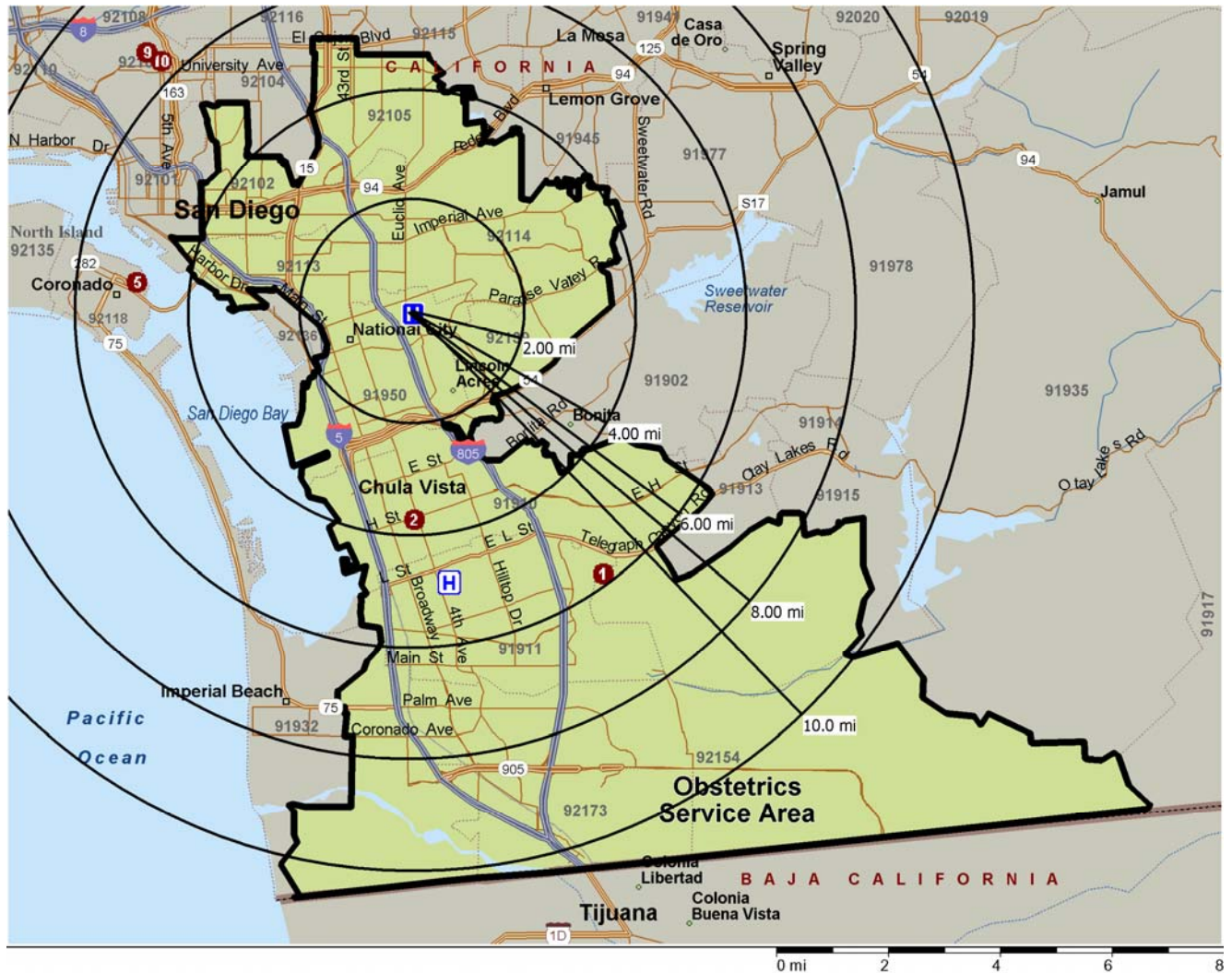
Approximately 83% of PVH's obstetrics discharges come from ten ZIP Codes and outside the United States. PVH has supported a cash-paying non-U.S. resident program for obstetrical services. This partially accounts for the large volume of non-U.S. resident obstetrical discharges.

Marketshare for Obstetrical Services <sup>1</sup> by ZIP						
ZIP		PVH Discharges	% of Discharges	Cum % of Discharges	Total Discharges	PVH Market Share %
Outside USA		619	24%	24%	1,143	54%
91950	National City	365	14%	38%	1,396	26%
92114	San Diego	213	8%	46%	1,382	15%
92113	San Diego	212	8%	54%	1,689	13%
92154	San Diego	125	5%	59%	1,756	7%
92173	San Ysidro	122	5%	64%	1,106	11%
91911	Chula Vista	113	4%	68%	1,892	6%
92102	San Diego	105	4%	72%	1,328	8%
92105	San Diego	96	4%	76%	2,064	5%
91910	Chula Vista	91	4%	79%	1,528	6%
92139	San Diego	84	3%	83%	629	13%
All Other ZIPs		454	17%			
<b>Total</b>		<b>2,599</b>	<b>100%</b>			

<sup>1</sup> Obstetrical services includes deliveries and other obstetrical related discharges

## Service Area Map for Obstetrical Services

PVH's obstetrical service area is shown in the map below (excluding patients from Mexico). The service area accounts for approximately 70.0% of PVH's total obstetrical discharges.



Map Key	
	Paradise Valley Hospital
	Bayview Behavioral Health Campus
1	Sharp Chula Vista Medical Center
2	Scripps Mercy Hospital-Chula Vista
3	Alvarado Hospital
4	Sharp Memorial
5	Sharp Coronado
6	Kaiser San Diego
7	Grossmont Hospital
8	Children's Hospital
9	UCSD Medical Center
10	Scripps Mercy Hospital

There are 308 obstetrical beds in the local area with a 63.6% occupancy rate. On average, 112 licensed beds are unoccupied in the area. PVH has 23 obstetrical beds that had a 52.3% occupancy rate for 2005.

<b>Service Area Hospital Obstetrical Programs</b>				
<b>Hospital</b>	<b>Miles from PVH</b>	<b>Licensed Beds</b>	<b>Pt. Days</b>	<b>Occupancy</b>
Paradise Valley Hospital	-	23	4,387	52.3%
Scripps Memorial - Chula Vista	5.6	20	4,139	56.7%
Sharp Chula Vista Med Ctr	7.0	20	6,085	83.4%
Grossmont Hospital	9.9	48	9,781	55.8%
Sharp Mary Birch Women's Hosp	10.6	87	25,939	81.7%
Scripps Mercy Hospital	10.7	73	10,863	40.8%
UCSD Medical Center	11.1	37	10,290	76.2%
<b>Total</b>		<b>308</b>	<b>71,484</b>	<b>63.6%</b>

Source: OSHPD Disclosure Reports (based on each hospitals most recent closed fiscal year).

### **Payer Mix by Year for Obstetrical Services**

PVH's obstetrical services payer mix is primarily dominated by traditional Medi-Cal (31.9%) and "Other" which includes self-pay (42.9%). Traditional Medi-Cal has been decreasing slightly over the past three years, from 35.2% in 2003 to 29.0% in 2005. While "Other," which includes self-pay, has grown over the past three years from 39.5% to 48.5%.

<b>Paradise Valley Hospital Obstetrics Payer Mix</b>			
<b>Payer</b>	<b>Year 2003</b>	<b>Year 2004</b>	<b>Year 2005</b>
Traditional Medicare	0.2%	0.2%	0.5%
Managed Medicare	0.0%	0.1%	0.0%
Commercial Managed Care	14.6%	12.8%	9.3%
Traditional MediCal	32.3%	35.2%	29.0%
Managed MediCal	10.6%	9.5%	10.3%
Private Insurance	0.6%	0.5%	0.1%
PPO-EPO-POS	2.0%	2.3%	2.3%
Other	39.7%	39.5%	48.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## Neonatal Intensive Care Services

There are seven NICU units serving the area. PVH's NICU has an average census of only 2.4 patients per day and a total of 10 licensed beds.

The combined seven area NICU programs have approximately 73% occupancy. There are approximately 55 empty NICU beds in the area available on average.

Area Neonatal ICU Licensed Units				
Hospital	Miles from PVH	Licensed Beds	Pt. Days	Occupancy
Paradise Valley Hospital	-	10	880	24.1%
Sharp Chula Vista Med Ctr	7.0	6	1,007	46.0%
Scripps Memorial - Chula Vista	5.6	10	1,078	29.5%
Grossmont Hospital	9.9	24	2,866	32.7%
Scripps Mercy Hospital	10.7	29	11,376	107.5%
Children's Hosp of San Diego	10.7	52	13,184	69.5%
Mary Birch Women's Hosp	10.6	61	18,768	84.3%
UCSD Medical Center	11.1	40	12,594	86.3%
<b>Total</b>		<b>232</b>	<b>61,753</b>	<b>72.9%</b>

Source: OSHPD Disclosure Reports (based on each hospitals most recent closed fiscal year).

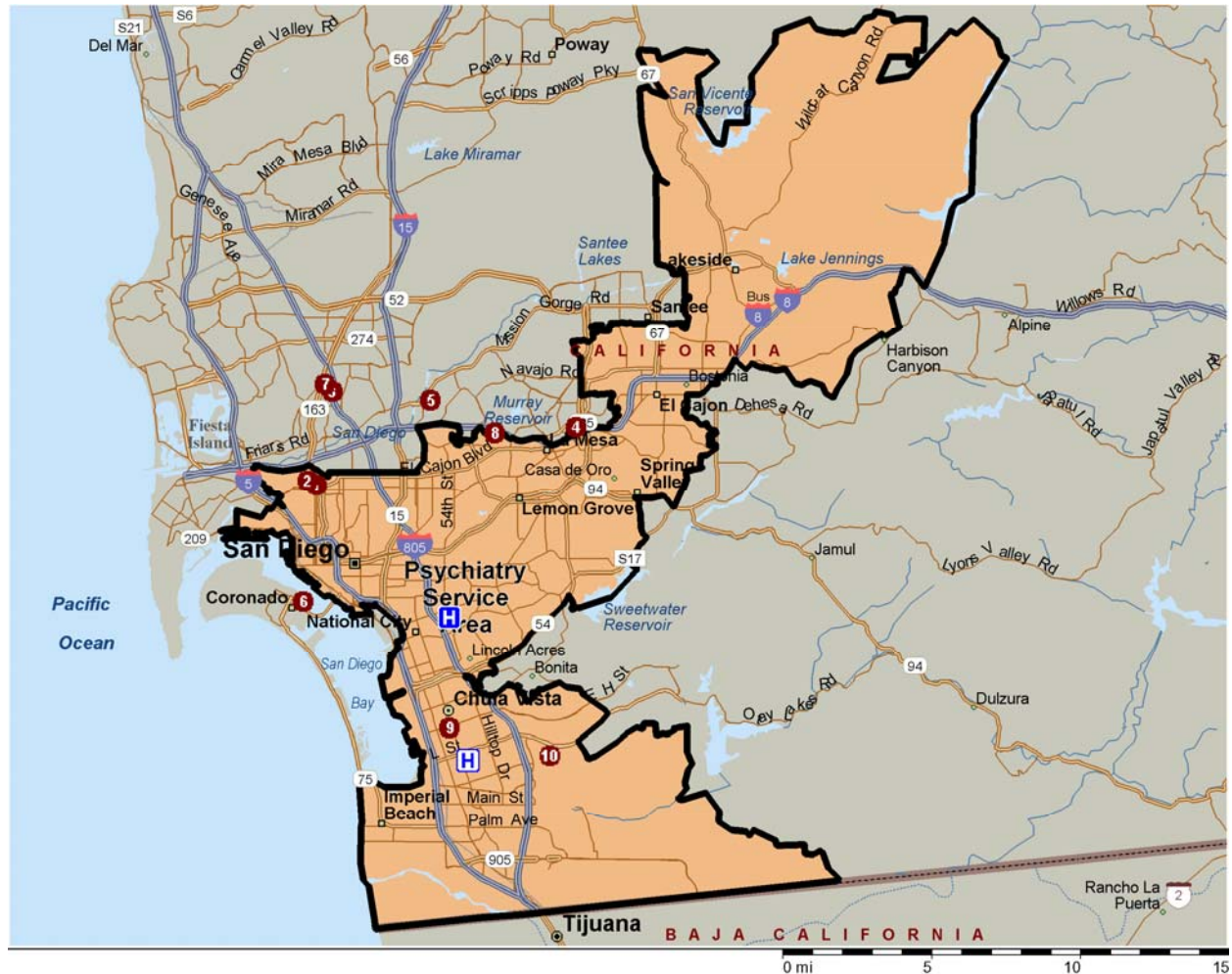
## Service Area Definition for Psychiatry

Approximately 80.0% of PVH's psychiatric discharges come from 21 ZIP Codes and unknown addresses. PVH's largest market share for psychiatry is (73%) in ZIP Code 91950 (National City) with a market share of 40% or higher in nine ZIP Codes.

Paradise Valley Hospital						
Patient Origin and Market Share for Psychiatry						
ZIP	City	PVH Discharges	% of Discharges	Cum % of Discharges	Total Discharges	Market Share %
91950	San Diego	465	12%	12%	639	73%
91911	Chula Vista	370	9%	21%	658	56%
92114	San Diego	361	9%	30%	877	41%
92139	San Diego	255	6%	36%	415	61%
92101	San Diego	205	5%	41%	957	21%
91910	Chula Vista	198	5%	46%	481	41%
92154	San Diego	186	5%	51%	407	46%
No residence (homeless)		169	4%	55%	N/A	N/A
92113	San Diego	145	4%	58%	303	48%
91977	Spring Valley	124	3%	61%	529	23%
92102	San Diego	123	3%	65%	459	27%
92020	El Cajon	109	3%	67%	825	13%
92105	San Diego	94	2%	70%	617	15%
Patient's residence unknown		68	2%	71%	N/A	N/A
92115	San Diego	65	2%	73%	438	15%
91932	Imperial Beach	63	2%	74%	156	40%
92021	El Cajon	59	1%	76%	640	9%
92173	San Ysidro	55	1%	77%	122	45%
92104	San Diego	51	1%	78%	387	13%
92040	Lakeside	40	1%	79%	324	12%
91945	Lemon Grove	38	1%	80%	261	15%
91941	La Mesa	36	1%	81%	298	12%
92134	San Diego	2	0%	81%	4	50%
All Other ZIPs		751	19%	100%		
<b>Total</b>		<b>4,032</b>	<b>100%</b>			

## Service Area Map for Psychiatric Services

PVH's psychiatric service area is shown on the map below. Service area discharges account for approximately 80.0% of PVH's total psychiatric discharges.



Map Key	
	Paradise Valley Hospital
	Bayview Behavioral Health
1	Scripps Mercy Hospital
2	UCSD Medical Center
3	Children's Hospital
4	Grossmont Hospital
5	Kaiser San Diego
6	Sharp Coronado
7	Sharp Memorial
8	Alvarado Hospital
9	Scripps Mercy Hosp-Chula Vista
10	Sharp Chula Vista Med Ctr

PVH has 88 adult psychiatric beds with 39 beds located at PVH, National City and 46 beds at the Bayview facility.

Excluding PVH and the county facility, there are only approximately 55 unoccupied adult psychiatric beds in the local area.

<b>Adult Psychiatric Licensed Units (Inpatient)</b>				
<b>Hospital</b>	<b>Miles from PVH</b>	<b>Licensed Beds</b>	<b>Patient Days</b>	<b>Occupancy</b>
Paradise Valley Hospital	-	88	25,760	80.2%
Aurora San Diego	23.7	60	18,441	84.2%
University Community Med Ctr.	4.6	43	14,415	91.8%
Grossmont Hospital	9.9	32	7,774	66.6%
Sharp Memorial Community Hosp	10.4	34	8,587	69.2%
San Diego County Psychiatric Hosp	10.7	30	8,051	73.5%
Scripps Mercy Hospital	10.7	50	13,404	73.4%
UCSD Medical Center	11.1	32	9,233	79.0%
Alvarado Parkview Institute	11.9	19	6,460	93.2%
<b>Total</b>		<b>388</b>	<b>112,125</b>	<b>79.2%</b>

Source: OSHPD Disclosure Reports (based on each hospital's most recent closed fiscal year).

\* The County reports that 30 beds are available.

PVH has a 15-bed adolescent psychiatric unit that has an occupancy rate of 62% or approximately nine patients. The other three local facilities have an average of 34 beds available and unoccupied (i.e. good availability regionally).

<b>Psychiatric Adolescent/Child Licensed Hospital Units (Inpatient)</b>				
<b>Hospital</b>	<b>Miles from PVH</b>	<b>Licensed Beds</b>	<b>Patient Days</b>	<b>Occupancy</b>
Paradise Valley Hospital	-	15	3,446	62.9%
Sharp Memorial Community Hosp	10.4	21	5,352	69.8%
UCSD Medical Center	11.1	35	4,726	37.0%
Aurora San Diego	23.7	20	4,790	65.6%
<b>Total</b>		<b>91</b>	<b>18,314</b>	<b>55.1%</b>

Source: OSHPD Disclosure Reports (based on each hospital's most recent closed fiscal year).



## Service Area Market Share and Payer Mix for Psychiatric Services

The majority of all area psychiatric hospital inpatients are insured by Medicare (37%) or Medi-Cal (32%). PVH is the market leader in the provision of inpatient psychiatric care with 31% market share overall. Sharp Memorial has a large market share of the psychiatric services provided to commercial managed care patients (63%).

Paradise Valley Hospital Psychiatry Service Area												
Psychiatry Service Line Payer Mix												
Hospital	Total Discharges	Total	Traditional Medicare	Managed Medicare	Commercial Managed Care	Traditional MediCal	Managed MediCal	Private Insurance	PPO-EPO-POS	County Indigent	Workers Compensation	Other
Paradise Valley Hospital	3,044	31.1%	33.9%	1.6%	11.1%	43.6%	10.9%	39.4%	14.0%	5.5%	0.0%	26.5%
Sharp Memorial Hospital D/P APH	1,572	16.0%	11.7%	17.3%	62.7%	5.3%	62.8%	22.7%	16.3%	0.0%	63.2%	15.0%
Alvarado Parkway Institute B.H.S.	1,072	10.9%	21.5%	1.6%	8.1%	0.8%	0.0%	7.6%	5.5%	0.0%	5.3%	15.7%
University Community MC	1,055	10.8%	8.5%	0.0%	0.1%	23.4%	0.8%	6.1%	0.0%	0.0%	0.0%	4.3%
Scripps Mercy Hospital	745	7.6%	8.5%	14.2%	1.1%	7.6%	0.8%	3.0%	6.5%	0.3%	21.1%	13.0%
Grossmont Hospital	722	7.4%	8.4%	28.3%	3.7%	6.3%	22.5%	6.1%	9.3%	1.4%	5.3%	6.8%
Univ of Calif-San Diego MC	524	5.3%	3.6%	2.4%	1.8%	9.0%	0.8%	1.5%	4.4%	16.9%	5.3%	2.7%
All Others	1,063	10.9%	3.9%	34.6%	11.3%	4.1%	1.6%	13.6%	44.0%	75.9%	0.0%	16.1%
Total	9,797	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Discharges	9,797		3,496	127	979	3,009	129	66	527	290	19	1,155
% of Total Discharges			35.7%	1.3%	10.0%	30.7%	1.3%	0.7%	5.4%	3.0%	0.2%	11.8%

## Emergency Services

The service area for PVH's emergency services is similar to that for all Hospital services.

Paradise Valley Hospital ED Patient Origin Emergency Department Visits - CY 2005				
ZIP	City	PVH Visits	%	Cumulative %
91950	National City	7,826	20.2%	20.2%
92114	San Diego	7,262	18.8%	39.0%
92113	San Diego	4,916	12.7%	51.8%
92139	San Diego	2,914	7.5%	59.3%
92105	San Diego	2,134	5.5%	64.8%
92102	San Diego	2,195	5.7%	70.5%
91977	Spring Valley	1,562	4.0%	74.5%
91911	Chula Vista	959	2.5%	77.0%
91910	Chula Vista	945	2.4%	79.5%
92154	San Diego	665	1.7%	81.2%
All Other ZIPs		7,271	18.8%	
<b>Total</b>		<b>38,649</b>	<b>38,649</b>	<b>100.0%</b>
Source: PVH				

There are ten other Emergency Departments (ED) within a 12 mile driving distance of PVH (as indicated in the table on the following page). Nine of the EDs are basic, while UCSD Medical Center is a comprehensive ED. Kaiser also has an ED in the area that would bring the total to 11 EDs. There are a total of 301 stations in the area that had over 500,000 visits (2005, most current data available).

PVH operates 20 emergency stations/beds with over 38,000 visits in the calendar year 2005. Grossmont Hospital has higher emergency volumes in Moderate and Severe patients than any of the other hospitals in the area. Grossmont Hospital also has the largest number of emergency stations (64).

Emergency Services Visits By Category - 2005										
Facility	ER Level	Stations	Total	Non Urgent	Urgent	Moderate	Severe	Critical	Admitted	Miles from PVH
Paradise Valley Hospital	Basic	20	38,626	0.2%	35.4%	31.1%	16.7%	16.6%	18.9%	-
Promise Hospital	Basic	0	1,469	6.3%	39.8%	29.8%	18.0%	6.0%	15.5%	4.6
Scripps Memorial - Chula Vista	Basic	25	33,625	13.6%	43.7%	22.7%	10.0%	10.1%	13.4%	5.6
Sharp Coronado	Basic	8	10,647	9.3%	6.9%	47.0%	29.4%	7.5%	10.7%	6.5
Sharp Chula Vista Med Ctr	Basic	20	42,867	4.8%	4.1%	34.2%	41.6%	15.3%	18.9%	7.0
Grossmont Hospital	Basic	64	72,743	8.4%	3.3%	29.0%	50.9%	8.3%	13.2%	9.9
Sharp Memorial Community Hosp	Basic	31	45,938	4.6%	3.6%	25.1%	57.5%	9.3%	15.8%	10.4
Children's Hosp of San Diego	Basic	16	51,046	5.5%	7.9%	42.5%	25.2%	18.9%	10.3%	10.7
Scripps Mercy Hospital	Basic	27	51,611	13.4%	35.0%	21.7%	12.2%	17.7%	19.8%	10.7
UCSD Medical Center	Comprehensive	24	57,855	35.9%	0.8%	12.4%	44.5%	6.5%	21.5%	11.1
Alvarado Hospital Medical Center	Basic	12	22,002	10.7%	25.6%	20.0%	13.5%	30.1%	18.4%	12.3
Sub-total		247	428,429	10.4%	15.2%	28.1%	32.6%	13.6%	15.2%	
<b>Other Hospitals:</b>										
Kaiser - San Diego	Basic	54	95,792	16.0%	32.7%	49.7%	1.6%	0.0%	17.6%	9.6
<b>Total</b>		<b>301</b>	<b>524,221</b>	<b>11.5%</b>	<b>18.6%</b>	<b>32.3%</b>	<b>26.6%</b>	<b>11.0%</b>	<b>15.7%</b>	
<b>Percent of Total</b>				<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	

Sources: PVH, OSHPD (website file: Hosp05\_util-data), Disclosure Reports, Mapquest

The American College of Emergency Physicians (“ACEP”), representing 22,000 members nationally, uses a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of emergency departments. Based upon this benchmark, the PVH emergency department is operating close to capacity.

Most other area hospitals also report visits per bed per year below the ACEP benchmark except for Sharp Chula Vista Medical Center. On an aggregated basis, the 12 area hospitals collective “occupancy” rate based on existing bed capacity is 87% (based on the 2,000 visit standard).

The Department of Health Services also uses a general use rate of 2,000 visits per station as an identifier of total capacity. The table on the following page identifies which hospitals are over or under that threshold.

Of the 11 area hospitals, other than PVH, eight of them are under the threshold identified by the Department of Health Services.

Local Emergency Room Capacity - 2005						
Hospital	Total Visits	Level	Stations	Approximate Capacity (Visits) (1)	Remaining Capacity (Visits)	Miles from PVH
Paradise Valley Hospital	38,626	Basic	20	40,000	1,374	-
Promise Hospital	1,469	Basic	0	0	(1,469)	4.6
Scripps Memorial - Chula Vista	33,625	Basic	25	50,000	16,375	5.6
Sharp Coronado	10,647	Basic	8	16,000	5,353	6.5
Sharp Chula Vista Med Ctr	42,867	Basic	20	40,000	(2,867)	7.0
Grossmont Hospital	72,743	Basic	64	128,000	55,257	9.9
Sharp Memorial Community Hosp	45,938	Basic	31	62,000	16,062	10.4
Children's Hosp of San Diego	51,046	Basic	16	32,000	(19,046)	10.7
Scripps Mercy Hospital	51,611	Basic	27	54,000	2,389	10.7
UCSD Medical Center	57,855	Comprehensive	24	48,000	(9,855)	11.1
Alvarado Hospital Medical Center	22,002	Basic	12	24,000	1,998	12.3
Sub-total	428,429		247	494,000	65,571	
<b>Other Hospitals:</b>						
Kaiser - San Diego	95,792	Basic	54	108,000	12,208	9.6
<b>Total</b>	<b>496,677</b>		<b>301</b>	<b>602,000</b>	<b>105,323</b>	

(1) Estimated at 2,000 per station  
Sources: PVH, OSHPD (website file: Hosp05\_util-data), Disclosure Reports, Mapquest

## Paradise Valley Health Clinics

According to PVH, two clinics are operated under the Hospital's license.

### 1. The Paradise Senior Health Center:

The senior center clinic of the hospital provides a combination of medical and social services to seniors. It is located at 610 Euclid Avenue, across the street from the Hospital. Physicians provide over 9,000 patient visits a year at the center. According to PVH, the clinic operates close to financial breaking even.

### 2. The Paradise Family Health Center (PFHC):

PFHC provides pediatric and adult care by pediatricians, family practitioners and internists. Over 16,000 patient visits are provided per year at the clinic that is located in the outpatient pavilion adjoining the Hospital.

While the South San Diego County area has an extensive network of community clinics, PVH clinics are an important contributor of primary care services providing almost as many patient visits as the emergency department with over 25,000 patient visits per year.

## Skilled Nursing Services

The Acquisition Agreement also includes the sale of Paradise Valley Healthcare Center (PVHCC) that has 86 skilled nursing beds.<sup>2</sup> It is under a lease arrangement that will expire on August 31, 2012. The table lists the skilled nursing facilities within a ten mile radius of PVHCC. There are 18 non-acute based skilled nursing facilities (SNFs) within this area with most operating with high census levels. The table indicates that the 1,974 beds in that local area are occupied 85% of the time.

Local Non Acute Based Skilled Nursing Facilities							
Hospital	City	Beds	Calendar Year 2005				Miles From PVHC
			Discharges	Patient Days	Census	Occupancy	
PARADISE VALLEY HEALTH CARE CENTER	NATIONAL CITY	86	423	30,009	82	95.6%	-
FRIENDSHIP MANOR NURSING & REHAB CTR	NATIONAL CITY	104	649	32,945	90	86.8%	0.2
CASTLE MANOR CONVALESCENT CENTER	NATIONAL CITY	99	615	34,031	93	94.2%	0.4
PARADISE HILLS CONVALESCENT CENTER	SAN DIEGO	162	471	44,636	122	75.5%	2.1
HILLCREST MANOR SANITARIUM	NATIONAL CITY	60	57	21,578	59	98.5%	2.3
BRIGHTON PLACE - SAN DIEGO	SAN DIEGO	99	102	29,811	82	82.5%	2.6
WINDSOR GARDENS CONVALESCENT/SAN DIEGO	NATIONAL CITY	98	184	33,178	91	92.8%	2.7
FREDERICKA MANOR CARE CENTER	CHULA VISTA	174	328	61,032	167	96.1%	3.9
COLLINGWOOD MANOR	CHULA VISTA	75	61	20,223	55	73.9%	4.7
JACOB HEALTH CARE CENTER, LLC	SAN DIEGO	72	278	25,159	69	95.7%	4.9
UNIVERSITY CARE CENTER	SAN DIEGO	87	277	29,216	80	92.0%	5.0
ARROYO VISTA NURSING CENTER	SAN DIEGO	53	164	17,742	49	91.7%	5.6
WINDSOR GARDENS CONV&REHAB/GOLDEN HILL	SAN DIEGO	99	258	33,489	92	92.7%	6.1
VETERANS HOME - CHULA VISTA	CHULA VISTA	180	108	53,426	146	81.3%	6.5
LA MESA HEALTHCARE CENTER	LA MESA	94	288	34,310	94	100.0%	8.1
ST. PAULS HEALTH CARE CENTER	SAN DIEGO	59	378	12,729	35	59.1%	8.5
MONTE VISTA LODGE	LEMON GROVE	21	10	7,138	20	93.1%	8.8
CTR CENTER	SAN DIEGO	194	440	36,560	100	51.6%	9.2
LEMON GROVE CARE AND REHAB CTR	LEMON GROVE	158	328	54,926	150	95.2%	9.5
<b>TOTAL</b>		<b>1,974</b>	<b>5,419</b>	<b>612,138</b>	<b>1,677</b>	<b>85.0%</b>	

Source: OSHPD Long Term Care Utilization Report (final Oct. 2006)

<sup>2</sup> It also has 50 residential care beds.

## **SUMMARY OF COMMUNITY INTERVIEWS**

Interviews were conducted in November 2006 and January of 2007 at PVH and by telephone with numerous physicians, community members, and representatives from the Hospital, Prime and Adventist Health. MDS also attended an open meeting of the medical staff that was hosted by the Hospital and Prime. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding potential impacts on healthcare availability or accessibility as a result of the proposed Hospital transaction. The major findings from over forty interviews are summarized on the following pages.

### ***Reasons for the Sale of Paradise Valley Hospital***

Adventist Health executives stated that they are selling PVH in order to preserve capital to make seismic and other improvements at its other hospitals. Adventist Health executives further stated that because the Hospital is a stand-alone facility in a difficult market with a poor payer mix, PVH is unable to make a financial turnaround. With an expectation of continuously increasing expenses and greater losses in future years, the Board of Directors viewed it as their fiduciary duty to find a purchaser that would continue to operate the hospital services rather than face closure in the foreseeable future as part of Adventist Health.

### ***Acquisition by Prime***

There was widespread public concern about Prime as the purchaser, because of:

- Its reputation and for-profit business practices as reported upon in various news articles;
- The potential cancellation of managed care contracts;
- The impact that managed care contract cancellation would have increasing costs of patient care to HMOs, capitated medical groups and capitated hospitals and potentially eliminating capitation contract methodologies resulting in higher costs to patients and employers;
- The potential for closure of programs and services;
- The potential for reduction in charity care services;
- Prime's emphasis on "medical management" of patients;
- A concern that Prime may not be able to operate PVH profitably and may only operate the Hospital for a five-year period and later convert it for real estate development purposes;
- A concern that Prime may not be able to operate PVH profitably and could go bankrupt before five years of operation;
- Prime's potential cancellation of on-call payment arrangements for physicians that would increase the shortage of specialists at PVH and cause additional financial burdens for neighboring hospitals; and

- The defection of physicians from PVH because of dissatisfaction with Prime's approach to management and service delivery.

A minority of those interviewed expressed support for Prime as the acquirer because they believe:

- The purchase price of \$30 million was viewed as fair given PVH's market conditions and operating losses;
- Prime would bring needed changes and facility and equipment improvements;
- Hospitals need to negotiate from a stronger position with managed care companies; and
- The Attorney General restrictions would require the continuation of services for at least five years.

### ***Paradise Valley Hospital Sales Process***

PVH and Adventist Health did not actively publicize the prospective sale of PVH nor issue a Request for Proposal, nor engage in a competitive bidding process. Adventist Health stated the reason was in order to avoid any disruption to the Hospital's delivery of healthcare services to the community. Many interviewed believed that as a result, other potential purchasers were excluded from the process.

Others expressed the view that it would be unlikely that any other purchaser would be willing or able to support a \$30 million purchase price and operate the Hospital in the long-term given the requirement for seismic improvements to PVH by 2013.

Some expressed concern that the sale price was lower than the market value of the property and buildings.

### ***Importance of Paradise Valley Hospital to the Community***

PVH is viewed as very important to the community for its provision of emergency, obstetrical, general acute care, behavioral health, and prevention services. Other services frequently mentioned as important for healthcare access and availability include:

- Rehabilitation;
- Center for Wound Care and hyperbaric chamber; and
- The Paradise Senior Health Center and Paradise Family Health Center.

The directors of San Diego County Emergency Medical Services and County Mental Health emphasized the importance of the PVH emergency department and mental health services to maintenance of the safety net.

PVH is also viewed as very important to the community for its involvement in community improvement projects and as the largest employer in National City.

### ***Potential Closure of the Hospital***

All parties are concerned that the repercussions of SB 1953 seismic improvement requirements may eventually cause the closure of PVH. Adventist Health has stated that it will not make the improvements and has decided to sell or close the facility. Prime has stated it will agree to operate the Hospital for at least five-years and that they are evaluating plans to meet seismic requirements. Many interviewed expressed an opinion that it would be unlikely that PVH could financially support the replacement or retrofit of all its current services and still might face closure after five years.

### ***Communication About the Sale***

Widespread disappointment was expressed that the Hospital has not adequately involved the community leaders and medical staff in the planning and sales process.

### ***Opposition to the Sale***

Some interviewed expressed a desire to block or slow the sale to allow the potential for other parties to present purchase offers or to force Adventist Health to continue to operate the facility.



## **ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE ACCESSIBILITY AND AVAILABILITY OF HEALTHCARE SERVICES**

### ***Continuation of Paradise Valley Hospital as a General Acute Care Hospital***

Prime has committed to accept conditions imposed by the California Attorney General to continue to operate the services of the Hospital for at least five years.

Prime has started to establish a track record of acquiring and “turning around” financially distressed hospitals. If Prime can turn around the financial performance of PVH, it may be able to finance seismic improvements for extended operation of PVH. Dr. Reddy, Chairman of Prime, has suggested that a more affordable approach to the \$82 million retrofit could be to replace a smaller bed complement at PVH (e.g. 100 beds) based on its current average daily census.

However, unless a combination of the following occurs, it is unlikely that any owner would acquire PVH and commit to \$82 million dollars of improvements necessary to continue current operations beyond 2013:

- Relaxation of the 2013 date for seismic improvements;
- A significant financial turnaround;
- Legislative, grant, donor or other types of relief or financial contribution; and
- Significant program, service and operational changes.

### ***Impact on the Safety Net***

Similar to other communities in California, south and central San Diego County are anticipated to have major problems over the next few years maintaining inpatient safety net services. The requirement for hospitals to meet SB 1953 seismic standards threatens the continued existence of PVH and Scripps Chula Vista as general acute care hospitals and puts a total of 474 licensed beds at risk for closure. In 2005, these hospitals had an average daily census of 328 patients. If closed, area hospitals could not absorb the additional patient demand.

Additionally, UCSD Medical Center – Hillcrest (11 miles from PVH) is planning a move of inpatient services to La Jolla that will remove additional area beds further threatening safety net services.

A commitment to operate current services at PVH by Prime will at least continue safety net services for five years, and Prime expects to find a seismic solution that enables them to continue operating beyond five years. Alternatively, Adventist Health has indicated that it would likely close PVH well within the five-year period.

## ***Medical/Surgical, Definitive Observation, Intensive Care/Coronary Care Services***

An analysis of the current supply and demand of area hospital beds shows that there is a sufficient number of beds in the service area, however, population growth, population aging, disaster preparedness requirements and uncertainty about the effects of future hospital moves and closures makes PVH an important resource for general acute care beds.

## ***Obstetrical Services***

PVH provides over 2,000 deliveries per year, with the majority of patients under the Medi-Cal program. It is an important local service and other area hospitals would have difficulty absorbing PVH's delivery volume if the obstetrical service was closed.

## ***Emergency Services***

PVH, with 20 emergency beds and almost 40,000 visits in 2005 has a busy emergency department with little extra capacity. While other area emergency departments have capacity they could not absorb the volume of patients from PVH without creating problems for accessibility and availability. As previously discussed, PVH's emergency department is needed for patient access and is ranked as being very important by the County Director of Emergency Medical Services.

## ***Paradise Valley Health Clinics***

PVH operates the Paradise Senior Health Center close to the campus and the Paradise Family Health Center on campus. While San Diego's southern county area has an extensive network of community clinics, PVH clinics are an important contributor of primary care services providing 25,000 patient visits per year, which is over 60% of the number of patient visits at the Emergency Department.

## ***Psychiatric Services***

PVH is the largest provider of psychiatric services in San Diego County. Between the adult and adolescent services at PVH and Bayview, the average census historically has been over 80 beds. Approximately 55% of patients are covered under Medi-Cal and 36% are under Medicare. Excluding the County, which makes only a limited number of beds available for County indigent patients, other providers do not have the capacity to absorb the patient volume from PVH. The interim director for County Mental Health Services believes that it is very important to keep the psychiatric services of PVH open.

## ***Rehabilitation Services***

PVH is the market leader in providing rehabilitation services in its service area. The majority of patients have Medicare coverage with patients covered by Medi-Cal being a distant second. PVH's overall market share in the service area is 46% for rehabilitation services demonstrating its importance as a provider to local patients.

### ***Neonatal Intensive Care Unit and Pediatrics***

The average daily census for these services is approximately two patients each which is relatively low. These services are frequently provided by larger tertiary hospitals on a regional basis and patients in the PVH service area could easily be accommodated at other area facilities.

### ***Reproductive Health Services***

Tubal ligations and other reproductive health services are not prohibited at PVH, and the sale is not expected to change or reduce the availability or accessibility of these services.

### ***Effects on Services to Medi-Cal, Medicare, County Indigent and Other Classes of Patients***

PVH serves a large proportion of Medi-Cal, Medicare and County indigent patients. Approximately 39% are under Medi-Cal, 32% of patients are under Medicare, and 4% are indigent. Prime has committed to assume PVH's Medi-Cal contract, has submitted its Medicare enrollment application, and has agreed to provide services to charity care patients. While Prime may not contract with health plans for capitated providers for Medi-Cal or Medicare managed care, patients could still access PVH. Without contract rates, the payer would still be limited to paying the costs based upon traditional Medi-Cal and traditional Medicare reimbursement.

## ***Effects on the Level and Type of Charity Care Historically Provided***

PVH has a much higher percentage of uncompensated care charges as compared to hospitals in the State of California. In 2005, PVH had uncompensated care charges of 5.1% of total charges as compared to 3.1% for the State.

Prior to 2005, uncompensated care was in a range of 6.0% to 6.8% for PVH as compared to 2.9% to 3.3% for the State of California. From 2001 through 2004, the cost of uncompensated care had a range of \$6.5 million to \$7.9 million.

<b>Uncompensated Care Comparison</b>							
<b>Paradise Valley Hospital - FY 2001 to 2005</b>							
	<b>Uncompensated Care as a % of Gross Rev.</b>			<b>Cost to Charge Ratio</b>	<b>Cost of Uncompensated Care</b>		
	<b>Charity</b>	<b>Bad Debt</b>	<b>Total</b>		<b>Charity</b>	<b>Bad Debt</b>	<b>Total</b>
<b>2005</b>							
<b>PVH</b>	0.8%	4.3%	5.1%	24.2%	\$1,078,518	\$5,749,156	\$6,827,674
<b>State of Calif.</b>	1.3%	1.8%	3.1%	27.0%	\$610,801,932	\$886,130,199	\$1,496,932,131
<b>2004</b>							
<b>PVH</b>	1.6%	4.3%	6.0%	25.1%	\$2,176,980	\$5,743,976	\$7,920,955
<b>State of Calif.</b>	1.3%	1.9%	3.2%	27.9%	\$507,655,680	\$879,714,084	\$1,387,369,764
<b>2003</b>							
<b>PVH</b>	2.0%	4.1%	6.0%	26.7%	\$2,316,360	\$4,825,356	\$7,141,716
<b>State of Calif.</b>	1.3%	1.7%	3.0%	28.1%	\$539,998,790	\$724,554,420	\$1,264,553,210
<b>2002</b>							
<b>PVH</b>	2.4%	4.0%	6.4%	35.0%	\$2,543,695	\$4,245,950	\$6,789,645
<b>State of Calif.</b>	1.2%	1.7%	2.9%	30.2%	\$471,903,377	\$657,079,288	\$1,128,982,665
<b>2001</b>							
<b>PVH</b>	3.2%	3.6%	6.8%	44.0%	\$3,094,320	\$3,449,610	\$6,543,930
<b>State of Calif.</b>	1.4%	1.9%	3.3%	32.5%	\$491,632,949	\$657,709,252	\$1,149,342,201

Source: OSHPD Disclosure Reports, PVH's fiscal years ends 12/31.

While not addressed in the Acquisition Agreement, Prime has stated its willingness to commit to providing historical levels of charity care.

## ***Effects on Community Benefit Programs***

PVH has historically provided a significant amount of community benefit services with over \$1.2 million in costs provided in 2005 to support community education and prevention, patient transportation, etc.

While not addressed in the Acquisition Agreement, Prime has stated its willingness to commit to providing historical levels of community benefit services.

### ***Effects on Staffing and Employee Rights***

PVH employees are not represented by unions. Prime has agreed to continue the employment of substantially all employees with similar benefits. Because Prime's intent is to continue to operate most current services, expand services and add new services, the sale is not expected to affect most non-management employees.

### ***Effects on the Medical Staff***

While Prime has committed to maintain the medical staff privileges of physicians in good standing, many have expressed the expectation that physicians may leave to other hospitals because of dissatisfaction with Prime as the buyer.

### ***Effects on Patient Access***

Prime will not be assuming the current managed care contracts and HMO patients may not have access to the Hospital except on an emergency basis. While it is possible that access may be more difficult for HMO patients' elective care, PVH is not currently serving a large number of commercial managed care patients (only 8%), and access for these patients could be achieved at other area hospitals. Some have concerns that patients will be subject to collection efforts from the Hospital or health plans. Prime's CEO indicated that it would not pursue the HMO enrollees for emergency service charges.

### ***Alternatives***

If the proposed transaction were not approved, PVH may face sale under less desirable circumstances or potential closure.

## **CONCLUSIONS**

Overall, when compared to the alternative of closure of some or all services by Adventist Health, the sale of the Hospital to Prime is likely to be beneficial for at least five years of expected operation with few negative impacts on the availability and accessibility of healthcare services. In conjunction with Prime's intended capital contributions, their acquisition of PVH could lead to an expansion and improvement of services. Additionally, if Prime can operate PVH successfully it may be able to financially support the costs for the seismic improvements that would be necessary to operate beyond 2013.

### ***Acquisition Agreement Mitigation Measures***

In the Acquisition Agreement, Prime has agreed to only limited measures to mitigate or eliminate any potentially significant adverse impacts on the availability or accessibility of healthcare services to the affected community as described below:

- 1) Purchasers have agreed to adhere to the existing charity and indigent care policies in existence at Prime's other hospitals.
- 2) Purchasers have agreed that those members of the medical staff who are in good standing as of the date of the closing shall maintain medical staff privileges after the closing.
- 3) Purchasers have agreed to form a local board that will include local community leaders.
- 4) Purchasers have agreed to assume Paradise Valley Hospital's Medi-Cal contract.
- 5) Purchasers have agreed to accept conditions imposed by the Attorney General that are reasonably related to ensuring that Purchasers continue to preserve current hospital services and continue to provide current charitable medical services and community benefit programs.

The Acquisition Agreement does not specifically address the continued operation of services. However, many of the additional conditions recommended by MDS and listed below have been agreed to in concept by Prime (verbally) in order to further mitigate negative impacts.

### ***Potential Conditions for Transaction Approval by the Attorney General***

1. Prime should continue to operate PVH as a general acute care hospital and maintain the emergency services with at least current licensure and types and levels of service for at least five years.
2. Prime should maintain the following types of services for at least five years:
  - Medical/surgical beds or units at current licensure and levels of services;

- Obstetrics at current licensure and levels of service;
  - Adult intensive care and coronary care units at current licensure and levels of service;
  - Rehabilitation at current licensure and levels of service; and
  - Center for Wound Care and hyperbaric chamber at current levels of service.
3. Prime should maintain Behavioral Health Services (Adult and Adolescent) at Bayview Behavioral Health and PVH for at least five years at current licensure and types and levels of service. Alternatively, at least six months before the Bayview lease expires, Prime could either:
- a) Submit a plan that is acceptable to the Attorney General for moving the behavioral health services from Bayview to the main PVH campus that would have sufficient capacity to support 80 patients (the combined historical census levels) for at least 5 years; or
  - b) Submit an alternative operator that has been approved by the Lessor of Bayview and is acceptable to the Attorney General that would commit to operate Behavioral Health Services at current licensure and types and levels of service for at least 5 years.

There can be no closure of or change in current licensure and types and levels of services at Bayview Behavioral Health without receipt of written approval of alternatives (a) or (b) above from the Attorney General, the California Department of Health Services, and the California Office of Statewide Health Planning and Development.

- 4. Prime should commit to provide the same types and levels of services to Medicare and Medi-Cal patients and participate in the Medi-Cal and Medicare programs for as long as it operates PVH as a general acute care hospital.
- 5. Prime should accept and comply with the five-year lease extension renewal of Paradise Valley Health Center that allows for its current operation of the skilled nursing and assisted living facility on the campus of PVH.
- 6. Prime should commit to not seek balance billing against managed care contract enrollees.
- 7. Prime should continue to operate the Paradise Senior Health Center and the Paradise Family Health Center with the current type and levels of service for at least five years. Alternatively, Prime could find an alternative operator that is acceptable to the Attorney General that would commit to operating the Centers with current levels of service for at least five years.

There can be no closure of or change in current licensure and types and levels of services at the Centers without receipt of written approval an alternative operator from the Attorney General, the California Department of Health Services, and the California Office of Statewide Health Planning and Development.

8. Prime should utilize the Paradise Valley Hospital Foundation's Board, which is made up of medical, business and other community leaders as a review body prior to initiating any changes to Hospital services, community benefit programs, or charity care policies.
9. Prime should continue to expend \$2.5 million in annual charity costs<sup>3</sup> (not charges) for at least five years. The amount of any annual shortfall in charity care should be contributed to a nonprofit public benefit corporation that provides medical patient care to residents in the service area.
10. Prime should continue to expend an average of at least \$1.2 million annually in community benefit services for at least five years that includes continued support for patient transportation (as legally permissible), Center for Health Promotion, and free health education classes in English and Spanish. Community benefit commitments shall be decided upon in conjunction with input from the Paradise Valley Hospital Foundation.
11. Prime should continue to seek and participate in the ALLY Grant Programs (ALLY National City Grant and ALLY South Bay).
12. Prime should commit to at least \$5 million in capital expenditures over the next five years in order to make capital equipment and plant improvements.

### ***Recommended Action***

Medical Development Specialists, Inc. recommends conditional approval of the proposed transaction subject to acceptance of the mitigation measures described in the previous section.

---

<sup>3</sup> OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as ...charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."



## Appendix

Interviews were conducted with the following people:

Alfredo Aguirre – Interim Director, San Diego County Mental Health Services

Ari Albala, MD – Medical Director of Behavioral Health Services, PVH

Carmel Angelo – County Emergency Medical Services Director

Barbara Baynton – Director Patient Relations, PVH

Melanie Betancourt – Director Charity Care, PVH

Greg Bishop, MD – Chair, Psychiatric Committee, PVH

Trisha Brereton – President, Foundation, PVH

Robert Carmen – Executive Vice President & COO, Adventist Health

Donna Crowley, MD – Past Chief of Staff, Medical Director for Rehabilitation Services, PVH

Terry Day – VP of Hospital Finance, Adventist Health

Kathy Downs – Director Medical Staff Office, PVH

Gillian Doxzon – Director, Emergency Services, PVH

Sue Elenbas – Director Home Health, PVH

Steve Escoboza, CEO (PVH) Hospital Association

Genaro Fernandez, MD – Cardiology “PVH”

Jay Flaherty – Director of Rehabilitation Services, PVH

Blanca Fresno, MD – Medical Director & Chair of Pediatric Committee, PVH

Gary Friedstad – Manager Charity Care, PVH

Adolfo Gonzalez - Chief of Police, National City

Elmer Harder, MD – Medical Staff and Board Member, PVH

Greg Knoll – Director of the Consumer Center for Health Education and Advocacy in San Diego

David Levinsohn – CEO, Sherman Oaks Hospital

George Lewis – Director, Senior Center, Pediatrics/Clinic, Cardiology Services, PVH

Jack Lungu – Associate Vice President, PVH

Adele Lynch – University of San Diego Patient Advocacy Representative

Brenda Mack – Bell – Healthy Beginnings Program Representative

Paul Manos, MD – Medical Director, Emergency Department, PVH

Ben Medina, MD – Medical Director, Senior Center, PVH

Michael Murphy – CEO, Sharp Healthcare

Susan Payne – Director Case Management, “PVH”  
Sandra Perez, MD – Chief of Staff, Medical Staff and Board Member, PVH  
Allie Pruitt – Board Member, PVH  
John Randall – Board Chairman, PVH  
Lex Reddy – President & CEO of Prime Healthcare Services  
Prem Reddy, MD - Chairman of Prime Healthcare Services  
Dana Richardson – Director Community Services, PVH  
Jerome Robinson, MD – Cardiology, PVH  
Pejman Salimpur – Owner of Alvarado Hospital Medical Center  
Dennis Soappman – Vice President Home Health, PVH  
Alan Soderblom –President and CEO, PVH  
Brent Soper – Chief Financial Officer, PVH  
Chris Van Gorder – President & CEO, Scripps Health